LLOYDS BANK plc

(incorporated in England with limited liability with registered number 2065)

LLOYDS BANKING GROUP plc

(incorporated in Scotland with limited liability with registered number 95000)

£50,000,000,000
Euro Medium Term Note Programme

This Prospectus (the "**Prospectus**") is issued in connection with the Programme (as defined below). Save where otherwise specified in the applicable Final Terms, any Notes (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein. This does not affect any Notes already in issue. Under the Euro Medium Term Note Programme described in this Prospectus (the "**Programme**"), Lloyds Bank plc (the "**Bank**" or "**Lloyds Bank**") and Lloyds Banking Group plc (the "**Company**") (each an "**Issuer**" and together, the "**Issuers**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "**Notes**"). References in this Prospectus to the "**Issuer**" or the "**relevant Issuer**" when used in relation to a particular Tranche or Series (each as defined in "Overview of the Programme – Method of Issue") are to the relevant issuer of such Tranche or Series, as the case may be, of Notes as specified in the Final Terms. The aggregate nominal amount of Notes outstanding will not at any time exceed £50,000,000,000 (or the equivalent in other currencies), subject to increase as provided herein.

Notes to be issued under the Programme may comprise (i) unsubordinated Notes ("**Senior Notes**") and (ii) Notes which are subordinated as described herein and have terms capable of qualifying as Tier 2 Capital (as defined below) (the "**Dated Subordinated Notes**"). The term "Tier 2 Capital" has the meaning given to it from time to time by the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Kingdom.

Application has been made to the Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Notes issued under the Programme for the period of twelve months from the date of this Prospectus to be admitted to the Official List of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Each Tranche of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**" and, together with the temporary Global Notes, the "**Global Notes**"). Notes in registered form may also be issued. The minimum specified denomination of the Notes shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency of the Notes.

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated "A" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), "A2" by Moody's Investors Service Ltd. ("**Moody's**") and "A+" by Fitch Ratings Ltd. ("**Fitch**"); (ii) short-term obligations of the Bank are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch; (iii) long-term senior obligations of the Company are rated "BBB+" by S&P, "Baa1" by Moody's and "A+" by Fitch; and (iv) short-term obligations of the Company are rated "A-2" by S&P, "P-2" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

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

Prospective investors in Notes should ensure that they understand the nature of the relevant Notes and the extent of their exposure to risks and that they consider the suitability of the relevant Notes as an investment in the light of their own circumstances and financial condition. It is the responsibility of prospective investors to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Notes and are not relying on the advice of the Bank, the Trustee (as defined herein) or any Dealer (as defined herein) in that regard.

Arranger
BofA Merrill Lynch

Co-arranger
Lloyds Bank

Dealers

Barclays	**BofA Merrill Lynch**
BNP PARIBAS	**Citigroup**
Commerzbank	**Crédit Agricole CIB**
Credit Suisse	**Daiwa Capital Markets Europe**
Deutsche Bank	**DZ BANK AG**
Goldman Sachs International	**HSBC**
J.P. Morgan	**Lloyds Bank**
Mizuho Securities	**Morgan Stanley**
Nomura	**RBC Capital Markets**
SMBC Nikko	**Standard Chartered Bank**
The Royal Bank of Scotland	**UBS Investment Bank**
UniCredit Bank	**Wells Fargo Securities**

This Prospectus comprises a base prospectus for the purposes of Directive 2003/71/EC, as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "Prospectus Directive") and for the purpose of giving information with regard to the Company and its subsidiary and associated undertakings which, for the avoidance of doubt, includes the Bank and its subsidiary and associated undertakings (the "Lloyds Bank Group") which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank and the Company.

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

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

(i) **have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable Supplemental Prospectus or any applicable drawdown prospectus;**

(ii) **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;**

(iii) **have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal or interest payments is different from the potential investor's currency;**

(iv) **understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets;**

(v) **be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and**

(vi) **understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Notes.**

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

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

The Company is a non-operating holding company which carries on all of its trading activities through its direct subsidiary, the Bank and members of the Lloyds Bank Group. Accordingly, save for the issuance and ongoing management of certain capital instruments by the Company and certain of its

subsidiaries, the consolidated financial statements of the Company and the Bank are similar in all material respects.

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

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

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

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuers, the Dealers, the Arranger and the Co-arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the accounts or benefit of, U.S. persons. The Notes are being offered and sold outside the United States to persons that are not U.S. persons (as defined in Regulation S ("Regulation S") under the Securities Act) in reliance on Regulation S. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "Selling Restrictions".

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

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

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

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

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

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

In connection with the issue of any Tranche, the Dealer or Dealers (if any) acting as stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a

level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final Terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

Certain Definitions

In this Prospectus, reference to:

(i) "**Company**" is to Lloyds Banking Group plc;

(ii) "**FCA**" is to the United Kingdom Financial Conduct Authority;

(iii) "**FSA**" is to the United Kingdom Financial Services Authority;

(iv) "**FSMA**" is to the Financial Services and Markets Act 2000;

(v) "**HBOS Group**" or "**HBOS**" is to HBOS plc and its subsidiary and associated undertakings;

(vi) "**Issuer**" is to either the Bank or the Company, as applicable (and together, the "**Issuers**");

(vii) "**Lloyds Bank**" or "**Bank**" is to Lloyds Bank plc;

(viii) "**Lloyds Bank Group**" is to the Bank and its subsidiary and associated undertakings;

(ix) "**Lloyds Banking Group**", "**Lloyds**" or the "**Group**" is to the Company and its subsidiary and associated undertakings;

(x) "**PRA**" is to the United Kingdom Prudential Regulation Authority.

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FORWARD LOOKING STATEMENTS

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

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets ("**RWAs**"), expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of Lloyds Banking Group or its management including in respect of statements about the future business and economic environments in the United Kingdom ("**UK**") and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to the Group's credit ratings; the ability to derive cost savings; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for one or more countries to exit the Eurozone or European Union (the "**EU**") (including the UK as a result of a referendum on its EU membership) and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural, pandemic and other disasters, adverse weather and similar contingencies outside the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; changes in laws, regulations, accounting standards or taxation, including as a result of further Scottish devolution; changes to regulatory capital or liquidity requirements and similar contingencies outside the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the United States or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; requirements or limitations on the Group as a result of investment by Her Majesty's Treasury ("**HM Treasury**") in the Group; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the provision of banking operations services to TSB Banking Group plc ("**TSB**"); the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge

certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Lloyds Bank plc financial statements:

(i) The unaudited Q1 2016 Interim Management Statement of the Bank for the three months ended 31 March 2016 (the "**Bank's Q1 2016 Interim Management Statement**");

(ii) The Bank's Annual Report and Accounts 2015 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2015, together with the audit report thereon, as set out on pages 14 to 150 and 12 to 13, respectively (the "**Bank's 2015 Annual Report**"); and

(iii) The Bank's Annual Report and Accounts 2014 including the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2014, together with the audit report thereon, as set out on pages 13 to 158 and 11 to 12, respectively (the "**Bank's 2014 Annual Report**").

Lloyds Banking Group plc financial statements:

(i) The unaudited Q1 2016 Interim Management Statement of the Company for the three months ended 31 March 2016 (the "**Q1 2016 Interim Management Statement**");

(ii) The audited consolidated financial statements of the Company for the financial year ended 31 December 2015, together with the audit report thereon, as set out on pages 179 to 288 and 171 to 178, respectively, of the Company's Annual Report and Accounts 2015 (the "**Company's 2015 Annual Report**"); and

(iii) The audited consolidated financial statements of the Company for the financial year ended 31 December 2014, together with the audit report thereon, as set out on pages 180 to 331 and 172 to 179, respectively, of the Company's Annual Report and Accounts 20143 (the "**Company's 2014 Annual Report**").

Other documents incorporated by reference:

(i) The section entitled "Terms and Conditions" on pages 19 to 40 of the Base Prospectus dated 13 June 2006 relating to the Lloyds TSB Bank plc £25,000,000,000 EMTN Programme;

(ii) The section entitled "Terms and Conditions" on pages 24 to 61 of the Base Prospectus dated 12 June 2007 relating to the Lloyds TSB Bank plc £25,000,000,000 EMTN Programme;

(iii) The section entitled "Terms and Conditions" on pages 25 to 66 of the Base Prospectus dated 10 June 2008 relating to the Lloyds TSB Bank plc £30,000,000,000 EMTN Programme;

(iv) The section entitled "Terms and Conditions" on pages 43 to 84 of the Base Prospectus dated 4 June 2009 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;

(v) The section entitled "Terms and Conditions" on pages 52 to 104 of the Base Prospectus dated 14 May 2010 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;

(vi) The section entitled "Terms and Conditions" on pages 52 to 112 of the Base Prospectus dated 20 May 2011 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;

(vii) The section entitled "Terms and Conditions" on pages 49 to 85 of the Base Prospectus dated 20 April 2012 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;

(viii) The section entitled "Terms and Conditions" on pages 48 to 87 of the Base Prospectus dated 7 June 2013 relating to the Lloyds TSB Bank plc £50,000,000,000 EMTN Programme;

(ix) The section entitled "Terms and Conditions" on pages 56 to 92 of the Base Prospectus dated 7 April 2014 relating to the Lloyds Bank plc £50,000,000,000 EMTN Programme; and

(x) The section entitled "Terms and Conditions" on pages 58 to 94 of the Base Prospectus dated 9 April 2015 relating to the Lloyds Bank plc and Lloyds Banking Group plc £50,000,000,000 EMTN Programme,

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

The Company is a non-operating holding company which carries on all of its trading activities through its direct subsidiary, the Bank and members of the Lloyds Bank Group. Accordingly, save for the issuance and ongoing management of certain capital instruments by the Company and certain of its subsidiaries, the consolidated financial statements of the Company and the Bank are similar in all material respects.

The Issuers will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to either Issuer at its respective principal office set out at the end of this Prospectus. Copies of all documents incorporated by reference in this Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

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

PRESENTATION OF FINANCIAL INFORMATION

In this Prospectus, references to the "**consolidated financial statements**" or "**financial statements**" are to either Lloyds Banking Group's consolidated financial statements included in the Company's 2015 Annual Report or the Lloyds Bank Group's consolidated financial statements included in the Bank's 2015 Annual Report, as applicable, unless indicated otherwise.

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

OVERVIEW OF THE PROGRAMME

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference and the relevant Final Terms.

Issuers	Lloyds Bank plc Lloyds Banking Group plc
Business	Lloyds Bank plc (the "**Bank**" or "**Lloyds Bank**") was incorporated in England and Wales on 20 April 1865 (Registration number 2065). The Bank's registered office is at 25 Gresham Street, London EC2V 7HN. The Bank is a wholly-owned subsidiary of Lloyds Banking Group plc (the "**Company**"). The Company was incorporated in Scotland on 21 October 1985 (Registration number 95000). The Company's registered office is at The Mound, Edinburgh EH1 1YZ. The Company and its subsidiary and associated undertakings are referred to as the "**Lloyds Banking Group**", "**Lloyds**" or the "**Group**". The businesses of Lloyds Banking Group are in or owned by the Bank. Lloyds Banking Group is a leading provider of financial services to individual and business customers in the UK. Its main business activities are retail and commercial banking and long-term savings, protection and investment.
Risks relating to the Group *Investors should note that the risks that are stated to apply to "the Group" apply also to the Bank and the Company.*	Risks: ● Relating to borrower and counterparty credit quality. ● Relating to concentrations of credit and market risk. ● Relating to adverse regulatory developments or changes in UK Government, EU or U.S. policy, including capital adequacy requirements. ● Associated with the Banking Act 2009 and the proposed Banking Reform Bill relating to competition and related issues. ● Arising from general macro-economic conditions in the UK, the Eurozone and other markets, instability in the financial markets, market fluctuations, tightening of monetary policy and the sovereign debt crisis. ● Of material negative changes to the estimated fair values of financial assets of the Group. ● Relating to the competitive environment in which the Group operates.

- That the Group could fail to attract or retain senior management or other key employees.
- Of weaknesses or failures in the Group's internal processes, systems and security as a result of internal and/or external events.
- Relating to cyber crime.
- Arising from terrorist acts, other acts of war, geopolitical events, pandemics, or other such events.
- Relating to TSB servicing requirements.
- Associated with the implementation of anti-money laundering policies (and related activities).
- Concerning the complete or partial failure to execute ongoing strategic change initiatives.
- Associated with industrial action and increased labour costs.
- Concerning borrowing costs and the Group's access to liquidity and sources of funding.
- Relating to the real or perceived shortage of capital resources.
- Relating to the Group's insurance businesses and employee pension schemes.
- Relating to the shareholding of the Solicitor for the Affairs of HM Treasury.
- Of assumptions and estimates on which the Group's financial statements are based being wrong.
- Associated with changes in taxation rates, accounting policy, law or interpretation of the law.

Risks relating to the Notes and the CREST Depositary Interests ("CDIs")

Risks:

- There is no assurance that a liquid secondary market for certain Notes will develop or continue.
- Certain Notes may be subject to early redemption at the relevant Issuer's discretion.
- The relevant Issuer's obligations under Dated Subordinated Notes are subordinated.
- Noteholders (as defined in "*Terms and Conditions of the Notes*") of the Notes may be required to absorb losses in the event the relevant Issuer or the

	Group becomes non-viable. • Upon the occurrence and continuation of a Capital Disqualification Event, the relevant Issuer may, without the need for any consent of the Noteholders or the Trustee, substitute all (but not some only) of certain Dated Subordinated Notes, or vary the terms of such Dated Subordinated Notes so that they remain or, as appropriate, become, Compliant Securities. • The holders of the Dated Subordinated Notes and (unless Senior Notes Waiver of Set-off specified in relevant Final Terms to be is not applicable) Senior Notes waive any right of set-off, compensation and retention in relation to such Notes insofar as permitted by applicable law. • Investors who hold through CREST through the issuance of CDIs ("**CDI Holders**") or have an interest in a separate legal instrument, will have only indirect interests in the Underlying Notes and will be subject to external provisions. • There are risks associated with certain provisions of the U.S. Internal Revenue Code of 1986 (commonly referred to as "**FATCA**") with respect to the Notes. • Renminbi is not freely convertible and it has limited availability outside of the People's Republic of China, which may affect the liquidity of any CNH Notes.
Description	Euro Medium Term Note Programme.
Size	Up to £50,000,000,000 (or the equivalent in other currencies at the date of issue).
Arranger	Merrill Lynch International
Co-arranger	Lloyds Bank plc
Dealers	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Crédit Agricole Corporate and Investment Bank Credit Suisse Securities (Europe) Limited Daiwa Capital Markets Europe Limited Deutsche Bank AG, London Branch DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

	Goldman Sachs International HSBC Bank plc J.P. Morgan Securities plc Lloyds Bank plc Merrill Lynch International Mizuho International plc Morgan Stanley & Co. International plc Nomura International plc RBC Europe Limited SMBC Nikko Capital Markets Limited Standard Chartered Bank The Royal Bank of Scotland plc UBS Limited UniCredit Bank AG Wells Fargo Securities International Limited (together, the "**Dealers**"). The Issuers may terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or the Programme.
Trustee	The Law Debenture Trust Corporation p.l.c.
Issuing and Paying Agent	Citibank, N.A., London Branch and, in respect of CMU Notes only, Citicorp International Limited
CMU Lodging Agent	Citicorp International Limited
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis and will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant final terms (each, the "**Final Terms**").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium thereto.
Form of Notes	The Notes may be issued in bearer form only ("**Bearer Notes**") represented by a Global Note, in bearer form exchangeable for Registered Notes ("**Exchangeable Bearer Notes**") or in registered form only ("**Registered Notes**") represented by a Global Certificate. In respect of CDIs, to the extent applicable, CDI Holders will hold CDIs constituted and issued by the CREST Depository and representing indirect interests in the Notes. The CDIs will be

	issued and settled through CREST. Neither the Notes nor any rights thereto will be issued, held, transferred or settled within the CREST system otherwise than through the issue, holding, transfer and settlement of CDIs. CDI Holders will not be entitled to deal directly in the Notes and accordingly all dealings in the Notes will be effected through CREST in relation to the holding of CDIs.
Clearing Systems	With respect to Notes (other than CMU Notes), Clearstream, Luxembourg, Euroclear and such other clearing system as agreed between the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). With respect to CMU Notes, the CMU Service operated by the Hong Kong Monetary Authority (the "**HKMA**"). With respect to CDIs, to the extent applicable, CREST.
Initial Delivery of Notes	On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be (a) deposited with a common depositary for Euroclear and Clearstream, Luxembourg or (b) in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA. Global Notes or Global Certificates may also be deposited with any other clearing system or delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). Registered Notes will initially be represented by a Global Certificate, which, if not held under the NSS, will be deposited on the issue date of the relevant Tranche either with (a) a common depositary on behalf of Euroclear and Clearstream, Luxembourg or (b) in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA or (c) any other agreed clearing system.
Currencies	Subject to compliance with all relevant laws, regulations and directives, any currency agreed between the relevant Issuer and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity. Unless otherwise permitted by then current laws, regulations and directives, Dated Subordinated Notes constituting Tier 2 Capital will have a minimum maturity of five years.

Denomination	Definitive Notes will be in such denominations as agreed between the relevant Issuer and the relevant Dealer and as specified in the relevant Final Terms save that the minimum denomination of each Note shall be at least the greater of (i) €100,000 (or its equivalent in another currency as at the date of issue of the Notes) or (ii) the minimum amount allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.
Fixed Rate Notes	Fixed Rate Notes will bear interest at the rate specified in the relevant Final Terms, such interest being payable in arrear on the date(s) in each year specified in the relevant Final Terms.
Fixed Rate Reset Notes	Fixed Rate Reset Notes will bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on certain dates and by reference to a mid-market swap rate or to a benchmark gilt rate, as adjusted for any applicable margin, in each case as may be specified in the relevant Final Terms, such interest being payable in arrear on the date(s) in each year specified in the relevant Final Terms.
Floating Rate Notes	Floating Rate Notes will bear interest as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as amended and supplemented) published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR or EURIBOR, as adjusted for any applicable margin. Floating Rate Notes may also have a maximum interest rate and/or a minimum interest rate.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest other than after the Maturity Date.
Redemption	The relevant Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified circumstances) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be specified in the relevant Final Terms and/or any drawdown prospectus.
Status of Notes	Senior Notes will constitute unsecured and unsubordinated obligations of the relevant Issuer and Dated Subordinated Notes

	will constitute unsecured, subordinated obligations of the relevant Issuer.
Early Redemption	Except as provided in "Redemption" above, Notes will be redeemable at the option of the relevant Issuer prior to maturity upon the occurrence of a Tax Event (as defined in "*Terms and Conditions of the Notes*") or, in the case of Dated Subordinated Notes, upon the occurrence of a Capital Disqualification Event (as defined in "*Terms and Conditions of the Notes*").
Permission from the Relevant Regulator	For so long as it is required under applicable banking regulations (1) any optional redemption or purchase by the relevant Issuer of Dated Subordinated Notes may be made only with the prior permission of the Relevant Regulator, (2) for any redemption of the relevant Dated Subordinated Notes prior to the fifth anniversary of the Issue Date, (a) in the case of redemption following the occurrence of a Tax Event, the relevant Issuer must demonstrate to the Relevant Regulator that the relevant change is material and was not reasonably foreseeable or (b) in the case of redemption following the occurrence of a Capital Disqualification Event, the relevant Issuer must demonstrate to the Relevant Regulator that the relevant change was not reasonably foreseeable by the relevant Issuer as at the Issue Date; and (3) the relevant Issuer will comply with any alternative or additional pre-conditions to redemption or purchase, as applicable, set out in the relevant Regulatory Capital Requirements. Such terms as used above are as defined in "*Terms and Conditions of the Notes*".
Withholding Tax	All payments of principal and interest in respect of the Notes will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event such withholding or deduction is made, additional amounts may be payable by the relevant Issuer, subject to certain exceptions as more fully described in Condition 8.
Governing Law	English.
Listing and Admission to Trading	Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market and references to listing shall be construed accordingly.
Ratings	Standard & Poor's Credit Market Services Europe Limited ("**S&P**") is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A" and Senior Notes issued by the Company under the Programme with a maturity of one year or more "BBB+"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "A-1" and Senior Notes issued by the Company

under the Programme with a maturity of less than one year "A-2"; and Dated Subordinated Notes issued by the Bank under the Programme "BBB" and Dated Subordinated Notes issued by the Company under the Programme "BBB-".

Fitch Ratings Limited ("**Fitch**") is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A+" and Senior Notes issued by the Company under the Programme with a maturity of one year or more "A+"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "F1" and Senior Notes issued by the Company under the Programme with a maturity of less than one year "F1"; and Dated Subordinated Notes issued by the Bank under the Programme "A-" and Dated Subordinated Notes issued by the Company under the Programme "A-".

Moody's Investors Service Limited ("**Moody's**") is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A1" and Senior Notes issued by the Company under the Programme with a maturity of one year or more "Baa1"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "P-1" and Senior Notes issued by the Company under the Programme with a maturity of less than one year "P-2"; and Dated Subordinated Notes issued by the Bank under the Programme "Baa2" and Dated Subordinated Notes issued by the Company under the Programme "Baa2".

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody's, each of which is established in the EU and is 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.

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

Selling Restrictions

United States, the Public Offer Selling Restriction under the Prospectus Directive, United Kingdom and all jurisdictions listed in "*Selling Restrictions*". Other restrictions may be required in connection with a particular issue of Notes. Each of

the Issuers is Category 2 for the purposes of Regulation S under the Securities Act.

The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §l.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**D Rules**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §l.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form as such rules for purposes of section 4701 of the Code) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

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

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

Risk Factors relating to the Bank, the Company and the Group

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 may adversely impact the recoverability and value of assets on the Group's balance sheet.***

The Group has exposures (lending, undrawn commitments, derivative, equity, contingent and/or settlement risks) 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, Consumer Finance and parts of the Run-Off divisions, and small and medium-sized enterprises ("**SME**") and "corporate" (including medium and large corporates, banks, financial institutions and sovereigns), arising primarily in the Commercial Banking, Run-Off and Insurance divisions. This reflects the risks inherent in the Group's lending and lending-related activities and in the insurance business primarily in respect of investment holdings (including loan assets) and exposures to reinsurers. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties or collateral held in support of exposures, 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 outside the Group's control, which include but are not limited to an adverse economic environment (in the UK and/or in countries where the Group and/or its customers/counterparties do and do not operate), reduced UK consumer and/or government spending (in light of the Group's concentration in the UK), global economic slowdown leading to constraints on liquidity (given concerns around the Eurozone, adverse economic environments in China and emerging markets and other macro-economic issues), changes in the credit rating of individual counterparties (including sovereigns), the debt levels of individual contractual counterparties and the economic environment in which they operate, increased unemployment, reduced asset values, increased personal or corporate insolvency levels, adverse sector concerns, falling stock and bond/other financial markets, reduced corporate profits, over-indebtedness (including sovereigns), changes (and the timing, quantum and pace of these changes) in interest rates (including the potential increase in the use of negative interest rates), volatility of oil and commodity prices, changes in foreign exchange rates, higher tenant defaults, counterparty challenges to the interpretation or validity of contractual arrangements, a sharp increase in credit spreads, changes to insolvency regimes making it harder to enforce against

counterparties and any external factors of a political, legislative or regulatory nature, including for example, the imposition of "living wage" requirements and tax changes relating to buy-to-let investments in the UK. There are many other factors that could impact credit risk, for example fraud, natural disasters, flooding, war and acts of terrorism.

The Group has credit exposure both in the UK and internationally, including Europe, the U.S., Asia and Latin America. The Group's credit exposure includes residential mortgages and commercial real estate lending, including commercial real estate lending secured against secondary and tertiary non-prime assets in the UK. The Group also has significant credit exposure to certain individual counterparties in cyclically weak sectors (such as leveraged lending, oil and gas, commodity traders, automotives, construction and retail) and weakened geographic markets and to counterparties whose businesses may be impacted by material unforeseen events. In addition, the Group has concentrated country exposure in the UK and within certain industry sectors, namely real estate and real estate-related sectors and financial intermediation including providing facilities to funds, predominantly against high quality (investment grade equivalent) investors. Other industry sectors have been adversely impacted by recent global economic events; for example the oil and gas sector, automotives and commodities trading and such adverse developments in these sectors increases the risk of default by the Group's customers in these sectors. The Group's retail customer portfolios (including those in the Retail, Consumer Finance and Run-Off divisions) will remain strongly linked to the UK 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.

In recent years, a number of factors such as Eurozone instability (including, without limitation, the risk of economic stagnation/deflation in the Eurozone or of a member leaving the Eurozone), the deterioration of capital market conditions, the global economic slowdown (once again a concern given recent slowdown in economic growth across China and emerging markets and other macro-economic issues) and measures adopted by the governments of individual countries have reduced and could further reduce households' disposable income and businesses' profitability. Such volatile conditions could also 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 political conditions or uncertainty over the Eurozone, or the UK Government and Eurozone austerity measures and public spending cuts, result in a prolonged period of economic stagnation for the UK or Eurozone, or a slowdown in the rate of economic recovery or there is a broader economic slowdown, 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 contingent, equity and derivative portfolios. This could have a material adverse effect on the Group's results of operations, financial condition or prospects.

The possibility of prolonged economic stagnation in the EU or the risk of a member leaving the EU (including potentially the UK), or the risk of a Eurozone member leaving the Eurozone could impact the UK's own economic recovery, given the extensive trade links between the UK and the Eurozone/EU. Given the extensive economic and financial links between the UK and the Eurozone, this 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 helped customer affordability, but the risk remains of increased default rates as interest rates start to rise. The timing, quantum and pace of any rise in interest rates is a key risk factor for the Group's default rates with expectations on the timing and quantum of any rises set by the Bank of England and also by the relevant central bank when lending in a foreign currency.

All new lending is dependent on the Group's assessment of each customer's ability to repay and the value of any underlying security and there is an inherent risk that the Group has incorrectly assessed the credit quality or willingness of borrowers to repay, 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 including in an adverse market/environment.***

The Group has exposure to concentration risk where its business activities focus particularly on a single obligor or a similar type of customer (borrower, sovereign, financial institution or central counterparty), product, industrial sector or geographic location, including the UK market.

The Group has large sectorial concentrations (primarily in gilts, real estate and real estate-related lending, and financial intermediation including providing facilities to funds, predominantly against high quality (investment grade equivalent) investors and to a lesser extent, oil and gas, automotive, agriculture, leveraged lending and asset-backed securities), as well as significant global credit exposure. Additionally, the Group also has significant exposure to the UK residential mortgage market. Whilst progress has been made to mitigate concentration risk in certain portfolios (for example, commercial real estate and real estate-related lending and asset-backed securities), the Group continues to expect challenges in achieving the required level of sales to manage remaining concentrations. Any downturn in these sectors could increase the risk of defaults by the Group's customers in these sectors and in turn, adversely impact the Group's results of operations, financial condition or prospects.

The Group has significant real estate and real estate-related exposure, including secondary and tertiary non-prime 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.

The Group's corporate lending portfolio also contains substantial exposure to large, mid-sized, public and private companies. Exposures to sectors that have experienced cyclical weakness in recent years, coupled with a historic strategy of taking large single name concentrations to non-listed companies and entrepreneurs, and taking exposure at various levels of the capital structure, may give rise to (albeit reducing) single name and risk capital exposure. Whilst expectation of default for these exposures is appropriately provided for within the Board's base case assumptions, they remain vulnerable to downside risks. 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 continue 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 (including underwriters), 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 or prospects.

The Group's corporate portfolios are also susceptible to "fallen angel" risk, that is, the possibility of default increases significantly following material unexpected events, resulting in the potential for large losses. These types of events can occur from time to time, and may include for example, major fraud, poor corporate governance, high profile incidents and collapse in specific sectors or products. These are very difficult to forecast.

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 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 ("**OTC**") 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 (e.g. the CDS counterparty). The Group seeks to limit and manage direct exposure to market counterparties. However, indirect exposure may exist through other financial arrangements and counterparties. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties may have a material adverse effect on the Group's results of operations, financial condition or prospects. 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. Although credit value adjustments, debit value adjustments and funding value adjustments are actively managed within the Group, in stressed market conditions adverse movements in these could result in a material charge to the Group's profit and loss account.

2 Conduct risks

The Group is exposed to various forms of conduct risk in its operations, including the risk of misselling financial products, mishandling of complaints, business planning and strategy not being based upon customer need and not supporting fair customer outcomes, and engaging in conduct which disrupts the fair and effective operation of a market in which it is active, any of which could have a material adverse effect on the Group's results or its relations with its customers and regulators.

The Group is exposed to various forms of conduct risk in its operations. Such risks are inherent in banking services. These include business and strategic planning that does not sufficiently consider customer need (leading to products being offered beyond target markets and misselling of financial products), ineffective management and monitoring of products and their distribution (which could result in customers receiving unfair outcomes), a culture that is not sufficiently customer-centric (potentially driving improper decision making and unfair outcomes for customers), outsourcing of customer service and product delivery via third parties that do not have the same level of control, oversight and culture as the Group (resulting in unfair customer outcomes which could lead to reputational damage and regulatory investigations), the possibility of alleged misselling of financial products or the mishandling of complaints related to the sale of such products (which could require amendments to sales processes, withdrawal of products or the provision of restitution to affected customers, all of which may require additional provisions in the Group's financial accounts), poor governance of colleagues' incentives and rewards and approval of schemes which drive unfair customer outcomes. These can lead to remediation and regulatory intervention/enforcement (including fines) and

ineffective management and oversight of legacy conduct issues. This can result in customers who are undergoing remediation being unfairly treated, and therefore further rectification being required. The Group is also exposed to the risk of engaging in conduct which disrupts the fair and effective operation of a market in which it is active.

While the Group has implemented a number of policies in order to help mitigate against these risks, no assurance can be given that the strategy and framework will be effective and will not have an adverse effect on the Group's results of operations, financial condition or prospects.

3 Regulatory and legal risks

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

The Group and its businesses are subject to legislation, regulation, court proceedings, policies and voluntary codes of practice including the effects of any changes in these or the interpretation of them in the UK, the EU and the other markets in which the Group operates. The Group is therefore subject to associated legal and regulatory risks, including risk in connection with legal and regulatory actions and market reviews. Depending on the specific nature of the requirements and how they are enforced, they could have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations.

These laws and regulations include (i) increased regulatory oversight, particularly in respect of conduct issues, (ii) prudential regulatory developments, including ring-fencing, (iii) increased legislative requirements including the new Senior Managers and Certification Regime (the "**SMCR**"), and (iv) other industry-wide initiatives.

Unfavourable developments across any of these areas, discussed in greater detail elsewhere herein, 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 these 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, 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, laws, regulations or contracts differently to 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, including markets investigations, or one or more of the Group's regulators intervening to mandate the pricing 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; and

(ix) regulatory changes which influence business strategy, particularly the rate of growth of the business, or which impose conditions on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

With respect to the State Aid commitments agreed with the European Commission by the Group under the State Aid regime in 2009, the Group has satisfied all material structural and behavioural commitments following the successful carve-out and disposal of TSB and non-core asset reductions. The Group is therefore no longer subject to restrictive behavioural commitments including the constraint on acquisitions, but the Group continues to be bound by two remaining limited ancillary commitments which means that the Group remains subject to supervision by the European Commission with respect to these commitments until they cease to have effect on or before June 2017.

For more detail on the changing prudential regulatory environment see "*Risk Factors — Regulatory and legal risks — The Group faces risks associated with an uncertain and rapidly evolving international prudential, legal and regulatory environment*".

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

The Group's borrowing costs and access to capital markets, as well as its ability to lend or carry out certain aspects of its business, could be affected by prudential regulatory developments, including (i) amendments to FSMA introduced by the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") along with secondary legislation and PRA/FCA rules made under the Banking Reform Act; (ii) amendments to the EU legislation comprising the Capital Requirements Directive and the Capital Requirements Regulation ("**CRD IV**"), effective from 1 January 2014, or implementation of CRD IV in the UK; (iii) evolving European and global prudential and regulatory changes; and (iv) regulatory changes in the U.S.

Banking Reform Act

The Banking Reform Act received Royal Assent on 18 December 2013. The Banking Reform Act's measures contain provisions with respect to, amongst other things (i) ring-fencing domestic retail banking services of UK banks and (ii) the new SMCR.

Ring-Fencing

The Banking Reform Act, secondary legislation and PRA/FCA rules made under the Banking Reform Act have enacted amendments to the FSMA that require UK banking groups (such as the Group) with more than £25 billion (on a group-wide basis) of core deposits (defined as "**ring-fenced bodies**" or "**RFBs**") to separate retail banking activities – particularly deposit-taking and associated services – from certain prohibited forms of activity, including (i) dealing in investments; (ii) incurring exposures to relevant financial institutions (which include, amongst others, credit institutions (other than RFBs), investment firms and alternative investment funds (subject to certain limited exceptions)); (iii) participating in an inter-bank payment system other than as a direct member (subject to certain limited exceptions); and (iv) having non-EEA branches or subsidiaries. RFBs are also subject to regulations governing how pension arrangements can be managed, following the implementation of ring-fencing.

The PRA and FCA are required by the Banking Reform Act to implement ring-fencing rules (the "**Ring-fencing Rules**") by 1 January 2019, with the deadline for implementing changes to the Group's pension scheme being 1 January 2026. The PRA has published consultation papers covering: (i) the legal structure of an RFB and its wider group; (ii) the governance arrangements for an RFB; (iii) the continuity of services and facilities; (iv) prudential requirements applicable to the RFB sub-group; (v) intra-group arrangements; (vi) the use of financial market infrastructure by RFBs; and (vii) reporting requirements regarding compliance with the ring-fencing regime, including an RFB's reliance on any exemptions to the excluded activities and prohibitions under secondary legislation. RFBs are able to apply for waivers of the Ring-fencing Rules in accordance with the statutory procedure for waivers set out in FSMA. In May 2015, the PRA published near-final rules covering items (i) through (iv) above. The PRA and FCA have also been granted powers to impose certain restructuring requirements on RFBs, their parent undertakings and certain other regulated entities within an RFB's group if, in broad terms, the financial stability of the RFB is deemed to be at risk.

Whilst the Ring-fencing Rules and other guidance are not yet in final form, it is expected that the implementation of the Ring-fencing Rules will have an impact on the Group's structure, governance arrangements, business and reporting models, operations, costs and financing arrangements. The Group expects that due to the implementation of this legislation, it will be required to reorganise its business, however, the full extent of changes required by the Group under the Ring-fencing Rules is not yet known. The Group is actively engaged with HM Treasury, the PRA and FCA to ensure that it is able to fully implement the restructuring required to implement ring-fencing by the January 2019 deadline. As required under the PRA's second consultation paper, the Group submitted its latest implementation plan to the PRA and FCA in early 2016. In addition, the Group will become subject to the expanded oversight powers granted to HM Treasury, the PRA and the FCA under the Banking Reform Act from 1 January 2019.

Senior Managers and Certification Regime

The SMCR is a new regime which replaces the approved persons regime for deposit takers and other PRA designated firms. The SMCR came into force on 7 March 2016. The SMCR comprises a number of elements, including the senior managers' regime, the certification regime and the conduct rules, which could potentially be expanded by changes proposed by the Bank of England and the Financial Services Bill 2015/16. The Group could be exposed to additional risk or loss if it is unable to comply with the requirements arising from the SMCR or if doing so imposes significant demands on the attention of management.

Capital Requirements Regulation

In 2012, the Basel Committee on Banking Supervision (the "**Basel Committee**") approved significant changes to the regulatory framework applicable to the Group, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions (such changes being commonly referred to as "**Basel III**"). The Basel III changes refer to, amongst other things, (i) new requirements for a bank's capital base; (ii) measures to strengthen capital requirements for counterparty credit exposures arising from certain transactions; (iii) the introduction of a leverage ratio and (iv) short-term and longer-term standards for funding and liquidity.

The Basel III reform package has been implemented in Europe through CRD IV. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

As a European regulation, the Capital Requirements Regulation is directly applicable in the UK and the Group is subject to its requirements. In December 2013, the PRA published its principal statement of policy, setting out the PRA rules in order to implement the Capital Requirements Directive in the UK.

The CRD IV regime is expected to continue to evolve as a result of further changes agreed by EU legislators, binding regulatory technical standards and guidelines to be developed by the European Banking Authority ("**EBA**") and changes to the way in which the PRA interprets and applies these requirements to UK financial institutions. Whilst the Group does not anticipate any material change to capital requirements as a consequence of the EBA regulatory technical standards and guidelines there is a risk that this may not be the case.

CRD IV introduced a number of new capital buffers to provide further capital cushions for additional risks that financial institutions may be subject to. These buffers will be fully phased in by 1 January 2019 and comprise: (i) a capital conservation buffer; (ii) a time-varying counter-cyclical capital buffer; (iii) buffers applicable to global systemically important banks ("**G-SIBs**"); (iv) buffers applicable to other systematically important banks; and (v) a systemic risk buffer ("**SRB**"). The Group is not currently categorised as a G-SIB for which the Financial Stability Board ("**FSB**") has set buffer rates. However, within the UK, the Bank of England's Financial Policy Committee ("**FPC**") issued a consultation paper in January 2016 on the domestic SRB framework that will apply to the Group's RFB sub-group, with a finalised framework to be published in 2016.

Under CRD IV Article 141, institutions that fail to meet their "combined buffer requirements" (consisting of buffers (i), (ii), and the higher of (iii), (iv) and (v)) will be subject to restrictions on the making of certain discretionary payments (including dividends on ordinary shares, coupons or AT1 securities and certain items of variable remuneration). These restrictions are scaled according to the extent of the breach and result in a maximum distributable amount which may be expended on such discretionary payments in each relevant period.

As there are aspects of the Group's capital buffer requirements which are still to be determined, investors may not be able to predict accurately the risk of dividends on ordinary shares or distributions on other securities being prohibited or restricted as a result of CRD IV Article 141.

In December 2015, the FPC released a supplement to its Financial Stability Report on the framework of capital requirements for UK banks. The supplement outlined the FPC's final views on the overall calibration of the UK capital framework and described how the framework of capital requirements for UK banks is expected to transition from its current state to its end point in 2019, as well as ongoing work to refine requirements during that transition period. In this supplement, the FPC set out its strategy for the time-varying UK counter-cyclical capital buffer which will be applied to a bank's UK exposures. As at the date of this Prospectus, the rate remains at 0 per cent. However, on 23 March 2016, the FPC decided to increase the UK counter-cyclical capital buffer rate from 0 per cent. to 0.5 per cent. of risk-weighted assets with effect from 29 March 2017, at which time the overlapping aspects of Pillar 2 supervisory capital buffers will be removed or reduced. The FPC has also indicated that it expects to review the counter-cyclical buffer quarterly and to set a UK counter-cyclical capital buffer rate in the region of 1 per cent. of risk-weighted assets when risks are judged to be neither subdued nor elevated but the rate can be set in excess of this level. There remains a risk therefore that the counter-cyclical capital buffer could lead to an increase in capital requirements applicable to the Group.

The FPC supplement also set out how the PRA intends to set a PRA buffer for individual banks which is the minimum level of capital buffer required by the PRA. The PRA buffer is confidential between the Group and the PRA and can be set at a level in excess of the combined buffer requirements and any further sectoral capital measures that the PRA has imposed. As a result, investors may not be able to predict accurately the risk of dividends on ordinary shares or distributions on other securities being restricted as a result of the PRA buffer.

In addition to the risk based capital framework, the Group is also subject to minimum requirements under the UK leverage framework. Currently, the UK leverage ratio framework does not give rise to higher capital requirements for the Group than the risk-based capital framework but there is a risk that it could do so as a result of a change in the Group's financial position or a strengthening of the regulatory requirements (which are expected to be calibrated by 2017).

The Group will monitor the ongoing changes to the capital framework which may affect the Group's financial position or require the strengthening of regulatory requirements.

Evolving European and Global Prudential and Regulatory Changes

More generally and in the longer term, the Basel Committee is considering revisions to Basel III including: credit risk capital requirements and capital floors; operational risk capital requirements; and capital requirements covering credit valuation adjustments. However, it is still too early to understand the full impact of these reforms.

In addition, the EBA issued a consultation paper to implement a Minimum Requirement for Own Funds and Eligible Liabilities ("**MREL**"), which will apply to EU financial institutions and cover capital and debt instruments that are capable of being written-down or converted to equity in order to prevent a financial institution from failing in a crisis. In December 2015, ahead of its powers to set MREL coming into force on 1 January 2016, the Bank of England published a consultation on its approach to setting MREL. The Bank of England has stated that it expects to set consolidated MREL in 2016 no higher than institutions' current regulatory minimum capital requirements. For most institutions, the Bank of England proposes to set a final MREL conformance date of 1 January 2020 with MREL requirements transitioning up to that date. The PRA has also separately stated that financial institutions should expect the PRA to investigate whether any financial institution in breach of its MREL requirement is failing, or likely to fail, to satisfy the threshold conditions for authorisation, with a view to taking further action as necessary. There is a risk that the final MREL requirements and the UK implementation of them may create an unexpected adverse impact upon the amount, mix and associated cost of the Group's capital and eligible debt of the Group.

Following the report of the European Commission's high-level expert group on banking structural reform chaired by Erkki Liikanen (the "**Liikanen Report**"), published in 2012, structural reform measures that are similar to some of those contained in the Banking Reform Act are also under consideration.

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 and when it fully comes into effect, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: (i) report every derivative contract entered into to a trade repository; (ii) implement new risk management standards (including operational processes and margining) for all bilateral OTC derivative trades that are not cleared by a central counterparty; and (iii) clear, through a central counterparty, OTC derivatives that are subject to a mandatory clearing obligation. Some of the requirements under EMIR (such as some clearing requirements) have yet to come into effect. The first clearing obligations for certain interest rate derivatives will apply from 21 June 2016 (but are subject to a number of phasing in provisions). Variation margin requirements for uncleared trades are expected to come into effect from 1 September 2016 for major market participants and on 1 March 2017 for all other counterparties. Initial margin requirements are expected to be phased in between 1 September 2016 and 1 September 2020. Although uncertainty remains about some of the final details, impact and timing of these requirements, the Group expects that there will be additional costs and limitations on the Group's business resulting from these requirements.

Significant regulatory initiatives from the U.S. 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, which could have an adverse effect on the Group's businesses. For example, final rules implementing the Volcker Rule came into effect from 22 July 2015, including prohibitions on certain types of proprietary trading by the Group, and limiting its ability to make investments in and sponsor certain private equity funds and hedge funds, subject to certain extensions for the Group to bring its activities into full compliance. Although uncertainty remains about some of the final details, impact and timing of the Dodd-Frank Act's implementing regulations, there will be additional costs and limitations on the Group's business resulting from both the finalised and pending regulatory initiatives, including the final rules imposing registration and other requirements on entities that engage in derivatives activities.

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

It is difficult to predict how and in what final form many of the regulatory changes described herein will be implemented and what financial obligations may be imposed in relation thereto. While 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, the Group could be exposed to additional risk of loss if it is unable to comply with the requirements arising from these regulations or if doing so imposes significant demands on the attention of management. 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, business prospects, structure, costs and/or capital requirements including 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.

3.3 ***The Group and its UK subsidiaries may become subject to the provisions of the Banking Act 2009, as amended, which could have an adverse impact on the Group's business.***

Under the Banking Act 2009 as amended (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the PRA and FCA (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 certain threshold conditions (within the meaning of Section 55B of the FSMA). The SRR consists of five 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" established and wholly owned by the Bank of England; (iii) transfer all or part of the relevant entity or "bridge bank" to an asset management vehicle; (iv) making of one or more resolution instruments by the Bank of England; and (v) 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 addition, the Group's costs of doing business may increase by amendments made to the Banking Act in relation to deposits covered by the UK Financial Services Compensation Scheme (the "**FSCS**"). The Group contributes 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 or financial condition.

EU Directive 2014/59/EU establishing an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**"), entered into force on 2 July 2014 and in the UK, the Banking Reform Act made provision for certain aspects of the "bail-in" power. Under the "bail-in power", before insolvency proceedings, regulators would have the power to impose losses on holders of regulatory capital securities, senior bondholders and/or other creditors while potentially leaving untouched certain other classes of excluded creditors; generally losses are to be taken in accordance with the priority of claims under normal insolvency proceedings. Bail-in is expected to apply to all of the Group's unsecured senior and subordinated debt instruments with a remaining maturity of greater than seven days. The stated aim of the BRRD is to provide authorities designated by EU member states to apply the resolution tools and exercise the resolution powers set forth in the BRRD (the "**resolution 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 granted to resolution authorities under the BRRD include, but are not limited to: (i) a "write-down and conversion power" relating to Tier 1 and Tier 2 capital instruments (including the Dated Subordinated Notes) and (ii) a "bail-in" power relating to eligible liabilities (including the capital instruments and senior debt securities issued by the Group). Such powers give resolution authorities the ability to write-down or write-off all or a portion of the claims of certain unsecured creditors of a failing institution or group and/or to convert certain debt claims into another security, including ordinary shares of the surviving group entity, if any. Such resulting ordinary shares may be subject to severe dilution, transfer for no consideration, write-down or write-off. Such powers were implemented in the UK with effect from 1 January 2015.

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) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the bank to avoid the failure of the bank; (iii) the relevant UK resolution authority determines that it is necessary having regard to the public interest to exercise the bail-in power in the advancement of one of the statutory objectives of resolution and (iv) one or more of those objectives would not be met to the same extent by the winding up of the bank. The Banking Act and secondary legislation made thereunder provides certain other limited safeguards for creditors in specific circumstances. The "no creditor worse off" safeguard contained in the Banking Act may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation. The exercise of mandatory write-down and conversion power under the Banking Act or any suggestion of such exercise could, therefore, materially adversely affect the rights of the holders of equity and debt securities and the price or value of their investment and/or the ability of the Group to satisfy its obligations under such debt securities.

In addition to the provisions described above, it is possible that the exercise of other powers under the Banking Act to resolve failing banks in the UK and give the authorities powers to amend the terms of contracts (for example, varying the maturity of a debt instrument) and 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 holders of the equity and debt securities issued by the Group, including through a material adverse effect on the price of such 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 HM 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.

The determination that securities and other obligations issued by the Group will be subject to write-down, conversion or bail-in is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Group's control. This determination will also be made by the relevant UK resolution authority and there may be many factors, including factors not directly related to the bank or the Group, which could result in such a determination. Because of this inherent uncertainty and given that both BRRD and the relevant provisions of the Banking Act remain untested in practice, 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 the ordinary shares of the Company. Moreover, as the criteria that the relevant UK resolution authority will be obliged to consider in exercising any bail-in power provide it with considerable discretion, holders of the securities issued by the Group may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Group and the securities issued by the Group. Potential investors in the securities issued by the Group should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon. The BRRD and applicable state aid rules provide that, other than in certain limited circumstances set out in the BRRD, extraordinary governmental financial support will only be available to the Group as a last resort once the write down and conversion powers and resolution tools referred to above have been exploited to the maximum extent possible.

Holders of the Group's securities may have limited rights or no rights to challenge any decision of the relevant UK resolution authority to exercise the UK bail-in power or to have that decision reviewed by a judicial or administrative process or otherwise. Accordingly, trading behaviour in respect of such securities is not necessarily expected to follow the trading behaviour associated with other types of securities that are not subject to such recovery and resolution powers. Potential investors in securities issued by the Group should consider the risk that a holder of such securities may lose all of its investment, including (in the case of debt securities) the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or if that senior debt instrument may be converted into Lloyds Banking Group plc ordinary shares. Further, the introduction or amendment of such recovery and resolution powers, and/or any implication or anticipation that they may be used, may have a significant adverse effect on the market price of such securities, even if such powers are not used.

3.4 ***The Group faces risks associated with its compliance with a wide range of laws and regulations.***

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

(i) certain aspects of the Group's activities and 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 misselling 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) compliance with a new PRA and FCA whistleblowing regime, by 7 September 2016, including rules which require certain deposit-holding entities to appoint a senior manager under the SMCR as a Whistleblowers' Champion. A Whistleblowers' Champion has been appointed who will be responsible for oversight of whistleblowing policies and an internal annual report on whistleblowing, as well as to implement various policies and procedures related to internal and external reporting, internal awareness, confidentiality and related areas;

(iv) contractual and other obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;

(v) the intellectual property of the Group (such as trade names) may not be adequately protected;

(vi) the Group may be liable for damages to third parties harmed by the conduct of its business;

(vii) 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;

(viii) risks related to a new regulatory and reporting regime under the Modern Slavery Act 2015, which (a) consolidates existing criminal offences for slavery and trafficking and creates two new civil orders to allow courts to intervene before a crime has occurred, and (b) will require the Group to prepare and publish a statement each year, starting for the 2016 financial year, describing the steps being undertaken to ensure that slavery and human trafficking are not taking place in any of its supply chains and in any part of its own business; and

(ix) the transfer of responsibility for regulating consumer credit from the OFT to the FCA. The FCA's approach to date has focused, and is expected to continue to focus, on higher risk groups, and the FCA has the ability to undertake its own enforcement actions. The FCA's consumer credit sourcebook ("**CONC**") is 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. 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 condition, results of operations or 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 or 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 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 or 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. Failure to manage these risks adequately could materially affect the Group, both financially and reputationally.

3.5 ***The Group faces risks associated with the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the media and politicians.***

The Group's operations, in particular related to its treatment of customers, are subject to supervision by the FCA and other regulatory authorities. In recent periods, the UK banking industry has been subject to heightened attention from these regulatory authorities, as well as the press and the UK Government. The FCA in particular continues to focus on conduct of business issues through its supervision activities and its establishment of a new Payment Systems Regulator. Other regulatory efforts include the implementation of the UK Mortgage Market Review ("**MMR**") in April 2014, which now requires lenders to obtain evidence of borrowers' income so as to ensure that they can afford a mortgage, including with respect to potential interest rate rises. The Bank of England is currently implementing limitations on the ability of lenders to provide high loan-to-income mortgages. Increased scrutiny or regulatory development in these areas could materially affect the Group's operation of its business and/or have a material adverse effect on the Group's business, results of operations or financial condition. Alongside these changes, the FCA may consider various adjustments to the MMR or other legislation in order to align it with the Mortgage Credit Directive 2014/17/EU ("**MCD**"), which came into force on 21 March 2016, including (i) introducing the European Standardised Information Sheet, which is a new product disclosure document to be provided to customers, (ii) requiring firms to calculate both an annual percentage rate of charge ("**APRC**") according to the method set out in the MCD as well as a second APRC for variable-rate mortgage products, and (iii) widening the scope of UK mortgage regulation to include properties located across the EEA, as well as certain buy-to-let mortgages and second charge lending.

Additionally, the Group is subject to the Markets in Financial Instruments Directive ("**MiFID**") and its various implementing measures, which together regulate the provision of "investment services and activities" in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. MiFID is in the process of being replaced by a revised directive (MiFID II) and a new regulation (Markets in Financial Instruments Regulation or "**MiFIR**"), which entered into force on 2 July 2014. The changes to MiFID include expanded supervisory powers that include the ability to ban specific products, services or practices. While the majority of the provisions of MiFID II and MiFIR and the implementing laws and regulations are currently scheduled to apply from 3 January 2018, the Group has commenced work to meet anticipated requirements. If the Group incurs substantial expenses associated with compliance, ongoing compliance imposes significant demands on the attention of management that result in other areas of the Group's business not receiving sufficient management attention, or if particular products, services or practices are banned, the Group's results of operations could be materially adversely affected.

The Group is also subject to European regulation on customer deposits. On 12 June 2014, the Deposit Guarantee Schemes Directive 2014/49/EU (the "**recast DGSD**") was published in the Official Journal of the EU, which replaced Directive 94/19/EC on Deposit Guarantee Schemes. As required by the recast DGSD, the UK introduced a compliant deposit guarantee scheme ("**DGS**") that:

- gives a preference in liquidation or resolution to deposits made by retail customers and SMEs over other senior creditors (including the holders of the Senior Notes issued by the Bank);
- sets out the rights of eligible depositors (typically retail customers) to compensation, and repayment circumstances and procedures by the DGS, covering the unavailability of any deposit, up to aggregate deposits of €100,000;
- places obligations on credit institutions, in particular, requirements to provide specified information to depositors (and potential depositors) on their rights to compensation under the DGS; and
- sets out provisions on the financing of DGSs, including target funding levels and contribution amounts by credit institutions.

In addition, increasing regulatory scrutiny under the EU General Data Protection Regulation may limit the extent to which customer data can be used to support the Group achieving its strategic objectives.

3.6 ***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 in respect of payment protection insurance ("PPI") redress payments.***

Where provisions have already been taken in published financial statements of the Group 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.

The Group increased provisions for expected PPI costs by a further £1.4 billion in the first six months of 2015 and by £2.6 billion in the second half of 2015. This brings the total amount provided for at the end of 2015 to £16.0 billion, of which £3.5 billion remains unutilised with approximately £3.0 billion relating to reactive complaints and administration costs. The unutilised provision comprises elements to cover the Past Business Review ("**PBR**"), remediation activity and future reactive complaints. 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 operations.

In November 2014, the Supreme Court ruled in *Plevin v Paragon Personal Finance Limited [2014] UKSC 61* ("**Plevin**") that failure to disclose to a customer a "high" commission payment on a single premium PPI policy sold with a consumer credit agreement created an unfair relationship between the lender and the borrower under s140 of the Consumer Credit Act 1974. It did not define a tipping point above which commission was deemed "high". The disclosure of commission was not a requirement of the FSA's (now FCA's) Insurance: Conduct of Business sourcebook rules for the sale of general insurance (including PPI). The industry, the FCA and the FOS are considering the broader impacts of this decision but there is no current definitive view. Permission to appeal the redress outcome in the Plevin case was refused by the Court of Appeal in July 2015 and by the President of the Family Division in November 2015.

On 2 October 2015, the FCA announced a decision to consult on the introduction of a deadline by which consumers would need to make their PPI complaints or lose their right to have them assessed. The deadline

would fall two years from the date the proposed rules come into force, which is not anticipated to be before spring 2016. The FCA's announcement also includes a decision to consult on rules and guidance about how firms should handle PPI complaints fairly in light of the Plevin judgement discussed above. The proposed deadline would also apply to the handling of these complaints. It is anticipated that if the proposed introduction of a deadline takes place, it could encourage eligible consumers to bring their claims early and result in a greater number of potential complaints presented to the Group than would have otherwise been expected during such period in the absence of a deadline for having complaints assessed, which could result in increased remediation and administrative costs in relation to such claims. The consultation was published on 26 November 2015 and was open until 26 February 2016. Thereafter the FCA will consider the responses received before making final rules. The deadline proposed by the FCA and the outcome of its consultation on the impact of the Plevin case on the handling of PPI complaints and remediation could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

4 Business and economic risks

4.1 ***The Group's businesses are subject to inherent and indirect risks arising from general macro-economic conditions in the UK, the Eurozone and globally, and the instability of the financial markets.***

The Group's businesses are subject to inherent and indirect risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the UK, where the Group's earnings are predominantly generated and the Group's operations are increasingly concentrated following the strategic reduction of its international presence. The Group may have credit exposure in countries outside the UK even if it does not have a presence in such countries. Although economic indicators in the UK have performed steadily in recent quarters, any significant macro-economic deterioration in the UK and/or other economies in which the Group operates or has legacy business, could have a material adverse effect on the results of operations, financial condition or prospects of the Group, as could political uncertainty within the UK, whether caused by the EU referendum, continuing EU membership, or otherwise. Additionally, the profitability of the Group's businesses could be affected by market factors such as unemployment, which has fallen to pre-crisis levels, however this trend could reverse. Lack of continued growth, or reduced economic growth, in the UK, changes in interest rates (and the timing, quantum and pace of those changes as well as the possibility of further reductions in interest rates (including negative interest rates)), reduced corporate profitability, reduced personal income levels, fluctuations in commodity prices, changes in foreign exchange rates, reduced UK Government and/or consumer expenditure, slowdown in global economic growth (which includes existing concerns over growth and the macroeconomic environment in China and emerging markets), and the general macroeconomic environment, 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 macro-economic deterioration, particularly in the Eurozone, any increase of financial market instability including any increase in credit spreads may represent further risk to the Group's business. The outlook for global growth remains uncertain due to issues such as geopolitical tensions (i.e. the Syrian crisis, fallout from Ukraine/Russia, Middle Eastern instability and any impact from the U.S. presidential election), the slow-down of growth rates in Asia, China, and in emerging markets generally. The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably Europe, the U.S. and beyond, 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, despite recent growth in the UK and U.S., the outlook for the global economy over the near to medium term remains challenging.

In the Eurozone, the pace of economic recovery remains slow following the global recession. Relatively weak growth and deflationary pressures, together with high levels of private and public debt, outstanding weaknesses in the financial sector and reform fatigue, also remain a concern. The possibility of prolonged low growth 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 and the possibility of the UK leaving the EU could have a further negative impact. The latest Greek bailout agreement has reduced the risk of Greece's exit from the Eurozone in the near term but has not solved longer term concerns around debt level sustainability.

In addition, developing macro-economic uncertainty in markets in China and throughout Asia, in particular the currency exchange rate intervention and market volatility seen in China, and other emerging markets could pose threats to global economic recovery. Financial markets may experience renewed periods of volatility, especially given the recent instability in oil and other commodity prices impacting corporates and emerging markets dependent on the oil and gas sector and potentially triggering deflation or stagflation, with a return of a risk of contagion, which may place new strains on funding markets. Further, the slowdown in emerging markets could impact corporate debt levels more widely, and external debt levels are higher now in emerging markets than before the global financial crisis, which could lead to higher levels of defaults and non-performing loans, in particular in an environment of rising interest rates.

The Group has credit exposure to SMEs and corporates, financial institutions, sovereigns and securities which may have material direct and indirect exposures in the Eurozone countries and other international countries. With the exception of the Group's retail lending exposures in the Republic of Ireland, its direct credit exposure to the peripheral Eurozone countries 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 potential that some countries could leave the Eurozone, could have a material adverse effect on the Group's business. The exit of a member state from the European Monetary Union (the "**EMU**") could result in 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 Group's business.

Examples of indirect risks to the Group associated with the Eurozone which have been identified are: European banking groups with lending and other exposures to certain Eurozone countries; corporate customers with operations or significant trade in certain European jurisdictions; major travel operators and airlines known to operate in certain Eurozone countries; and international banks with custodian operations based in certain European locations. Adverse developments relating to these sectors, or banking groups could negatively impact the Group's business, results of operations or financial condition, by increasing the risk of defaults.

The risk of the UK leaving the EU has risen with the UK Government's commitment to holding a referendum by the end of 2017 on continuing EU membership (scheduled for 23 June 2016). The effects on the UK and European and global economy of the exit of one or more EU member states from the EMU, or the EU, 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 and potentially in the UK; (ii) the severity of the recent global financial crisis; (iii) difficulties in predicting whether the current signs of 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 may 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, (d) a material adverse effect on the results of operations, financial condition or prospects of the Group, (e) an indirect risk of counterparty failure, or (f) further political uncertainty in the UK. 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.

Furthermore, any uncertainty in the UK arising from the risk of the UK leaving the EU could be exacerbated should the possibility of a further Scottish independence referendum be resurrected. There is no guarantee that the EU referendum debate will not cause a follow-up Scottish referendum to be considered, causing further uncertainty and risks to the Group.

4.2 ***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.***

Quantitative easing measures implemented by major central banks, adopted alongside record low interest rates to support recovery from the global financial crisis, have arguably helped loosen financial conditions and reduce borrowing costs. These financial conditions may have led to the emergence of asset and liquidity bubbles that are vulnerable to rapid price corrections as financial conditions tighten, causing losses to investors and increasing the risk of default on the Group's exposure to these sectors.

Whilst the U.S. Federal Reserve increased its policy rates in December 2015, they may seek to keep rates on hold, or even reverse the increase. It remains unclear whether other major central banks, including the Bank of England, will begin to raise their policy interest rates in the near term. Given the current disinflationary global environment and uncertain outlook for emerging market growth, it is possible that policy interest rate increases may not occur and some central banks, such as the ECB, may seek to loosen policy further.

Although uncertainty remains about the timing of any increases by central banks, it is possible that any increase in interest rates may lead to increasing levels of defaults by the Group's customers. Monetary policy has been highly accommodative in recent years, including the Bank of England and HM Treasury "Funding for Lending" scheme (the "**Funding for Lending Scheme**") and the "Help to Buy" scheme (the "**Help to Buy Scheme**") in the UK, which have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. Such a long period of stimulus has increased uncertainty over the impact of its reduction, including the possibility of a withdrawal of such programmes which could lead to generally weaker than expected growth, or even contracting GDP, reduced business and consumer confidence, higher levels of unemployment or underemployment, 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 its customers. Similar risks result from the exceptionally low level of inflation in developed economies, which in Europe particularly could deteriorate into sustained deflation if policy measures prove ineffective. Reduced 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, sovereigns 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.

Accommodative credit conditions in some areas since the global financial crisis have led to a build-up of debt, with private sector corporate debt in emerging markets growing particularly fast. Emerging market currency depreciation and the rise in U.S. interest rates may result in increasing difficulties in servicing this higher debt, especially debt that is denominated in U.S. dollars, possibly leading to debt defaults, which may negatively affect economic growth in emerging markets or globally.

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

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. Movements in these markets 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 and credit spread 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 also subject to market movements, including 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 Group will continue to face interest rate margin compression in the prolonged low interest rate environment and the yield on its structural hedge will reduce as the amortising hedge is reinvested at lower rates.

The insurance business of the Group is exposed indirectly to equity and credit markets through the value of future management charges on policyholder funds. Credit spread risk within insurance primarily arises from bonds and loans used to back annuities. The performance of the investment markets will thus have a direct impact upon the profit from investment contracts and on the Insurance value in force ("**VIF**") and the Group's operating results, financial condition or prospects.

Changes in foreign exchange rates, including with respect to the U.S. dollar and the Euro, affect the Group's financial position and/or forecasted earnings. Foreign exchange risk is actively managed by the Group within a low risk appetite, minimising the Group's exposure to exchange rate fluctuations.

4.4 ***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, an adverse effect on the Group's results of operations, financial condition or prospects.***

The Group has exposures to securities, derivatives 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 credit value adjustments, debit value adjustments and funding value adjustments are actively managed within the Group, in stressed market conditions adverse movements in these could result in a material charge to the Group's profit and loss account.

In addition, in volatile markets, hedging and other risk management strategies (including collateralisation and purchase of CDS) 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. 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.

4.5 ***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, new entrants to the market (including a number of new retail banks as well as non-traditional financial services providers), 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 existing or capture additional market share depends significantly upon the competitive environment and management's response thereto.

Notwithstanding this increase in competition described above, intervention by the UK Government competition authorities 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.

The Competition and Markets Authority (the "**CMA**") launched a full market investigation into competition in the SME banking and personal current account ("**PCA**") markets in November 2014. The CMA announced its provisional findings on 22 October 2015, stating that there is a combination of features of the markets for PCAs, business current accounts ("**BCAs**") and SME lending that give rise to adverse effects on competition, relating to low levels of customer engagement, barriers to accessing and assessing information, barriers to switching and incumbency advantages, and linkages between PCAs, BCAs and SME lending products. Since then, the CMA has consulted with all interested parties on its provisional findings and possible remedies to address the adverse effects on competition identified. On 17 May 2016, the CMA published its provisional

decision on remedies. These focus on measures to increase customer engagement, price transparency and product comparability; improve switching for both PCA and SME banking customers; and introduce a monthly maximum charge for PCA overdraft users. The CMA will consult on this provisional decision and will publish its final report by 12 August 2016.This process, combined with recent political debate on the reform of the UK banking markets, other current or potential competition reviews, the payment systems regulator and the FCA statutory objective to promote competition, along with concurrent competition powers, may lead to proposals or initiatives to reduce regulators' competition concerns, and greater UK Government and regulatory scrutiny in the future that may impact the Group. Additionally, the Group may be affected by changes in regulatory oversight following the pension review recommended by the Department for Work and Pensions. For more information on the Group's regulatory environment, see "*Regulation — Other Bodies Impacting the Regulatory Regime — The Bank of England and HM Treasury*".

The internet and mobile technologies 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, including technology companies with strong brand recognition.

As a result of any restructuring or evolution in the market, 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.

5 Operational risks

5.1 ***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 may be impacted by the introduction of the SMCR, which came into force on 7 March 2016. The SMCR includes a criminal offence of reckless misconduct, a statutory "duty of responsibility" to take reasonable steps to prevent regulatory breaches occurring or continuing in the area of the firm for which they have responsibility and increasing use of senior management attestations. In addition, the proposed limits on variable pay and "clawback" requirements which were introduced pursuant to 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.

5.2 ***Operational risks such as weaknesses or failures in the Group's processes, systems and security and risks due to reliance on third party services and products could materially adversely affect the Group's operations, financial condition or prospects, and could result in the reputational damage of the Group.***

Operational risks, through inadequate or failed 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 or errors in these 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 and damage to the reputation of the Group.

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 and/or corruption of customer data or other sensitive information. The resilience of the Group's IT infrastructure is of paramount importance to the Group; accordingly, significant investment has been, and will continue to be, made in IT infrastructure and supporting capabilities to ensure its resilience and subsequently the delivery of services to customers. The Group continues to invest in IT and information security control environments, including activity on user access management and records management to address evolving threats. The Group maintains contingency plans for a range of Group specific and industry wide IT and breach of security scenarios. The Board has defined a "Cyber Risk Appetite" and is supporting investment to help mitigate this risk.

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. Group-wide policies and operational control frameworks are maintained and designed to provide customer confidence, protect the Group's commercial interests and reputation, comply with legal requirements and meet regulatory expectations. The Group's fraud awareness programme remains 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.

Third parties upon which the Group relies for important products and services could also be sources of operational risk, specifically with regard to security breaches affecting such parties. Many of the operational risks described above also apply when the Group relies on outside suppliers or vendors to provide key components of its business infrastructure. The Group may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs. Additionally, any problems caused by these third parties, including as a result of their not providing the Group their services for any reason, their performing their services poorly, or employee misconduct, could adversely affect the Group's ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

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

5.3 ***The Group's business is subject to risks related to cyber crime.***

The Group relies on the effectiveness of its Group Information and cyber security policy and associated procedures, infrastructure and capabilities to protect the confidentiality, integrity and availability of information held on its computer systems, networks and mobile devices and on the computer systems, networks and mobile devices of third parties on whom the Group relies. The Group also takes protective

measures to protect itself from attacks designed to prevent the delivery of critical business processes to its customers. Despite preventative measures, the Group's computer systems, software, networks and mobile devices, and those of third parties on whom the Group relies, may be vulnerable to cyber-attacks, sabotage, unauthorised access, computer viruses, worms or other malicious code, and other events that have a security impact. Such an event may impact the confidentiality of the Group's or its clients', employees' or counterparties' information or the availability of services to customers. As a result, the Group could experience material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could cause a decline in the Group's earnings. The Group may be required to spend additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that it maintains. Any failure in the Group's cyber security policies, procedures or capabilities, or cyber-related crime, could lead to the Group suffering reputational damage and a loss of clients and could have a material adverse effect on the Group's results of operations, financial condition or prospects. The Group is committed to continued participation in industry-wide activity relating to cyber risk. This includes working with relevant regulatory and government departments to evaluate the approach the Group is taking to mitigate this risk.

5.4 ***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.

5.5 ***TSB servicing requirements may adversely impact the Group.***

As part of the divestment of TSB, the Group provides certain services to TSB which may result in reputational and financial exposure for the Group. For example, TSB relies on the Group for the provision of its IT systems and supporting infrastructure. The risks associated with provision of services to TSB include managing conflict of interests, the confidentiality of data, and competition risks as a part of providing services to a competitor bank. In addition the Group has made financial commitments to support any planned move by TSB to an alternative provider of IT systems and infrastructure.

5.6 ***The Group must comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could expose it to liability.***

The Group is required to comply with applicable anti-money laundering, anti-terrorism, sanctions, anti-bribery 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 terrorist financing, 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 and regulatory supervision.

The Group has adopted policies and enhanced its procedures aimed at detecting and preventing the use of its banking network and services for money laundering, financing terrorism, and related activities, applying systems and controls on a risk-based approach throughout its businesses and operations. These controls, however, may not completely eliminate instances where third parties seek to use the Group's products and services to engage in illegal or improper activities. 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 and terrorist financing (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 or terrorist financing, 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 operating results, financial condition and prospects.

To the extent that the Group fails to comply fully with applicable laws and regulations, the relevant government and regulatory agencies to which it reports have the power and authority to impose fines and other penalties on the Group, including the revocation of licences. In addition, the Group's business and reputation could suffer if customers use its banking network for money laundering, financing terrorism, or other illegal or improper purposes.

5.7 ***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 has a 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 Group continues to deliver this strategy there is considerable focus on digitisation and ensuring the Group meets customer demands through digital and mobile platforms. This approach will support the Group in achieving its cost targets.

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 an 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.

5.8 ***The Group could be exposed to industrial action and increased labour costs resulting from a lack of agreement with trade unions.***

Within the Group, there are currently two 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.

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.

6 Financial soundness related risks

6.1 ***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 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 rely, in part, on the availability of retail deposit funding on appropriate terms, for which there is increasing competition. 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*". 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, 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.

6.2 ***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 2015, 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 56 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.

Rating agencies regularly evaluate the Group and the Company, 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 Company will maintain its current ratings. Downgrades of the Group's longer-term credit rating could lead to additional collateral posting and cash outflow. The effects of a potential downgrade from all three rating agencies are included in the Group liquidity stress testing. As at 31 December 2015, 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 £1.5 billion of cash over a period of up to one year, £2.1 billion of collateral posting related to customer financial contracts and £5.6 billion of collateral posting associated with secured funding, calculated on an unaudited basis.

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, amendments to CRD IV and the coming into force of the BRRD. For further detail on the potential impact of these regulatory developments on the Group's business, see "*Risk Factors — Regulatory and legal risks — The Group faces risks associated with an uncertain and rapidly evolving international prudential legal and regulatory environment*".

The return required by bondholders 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.

6.3 ***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 interventions and sanctions and may suffer a loss of confidence in the market with the result that access to liquidity and funding may become constrained or 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 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. Separately the Group may address a shortage of capital by taking action to reduce leverage and/or risk-weighted assets or by business disposals. Such actions may impact the underlying profitability of the Group.

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 arise as a result of the crystallisation of credit-related risks, regulatory and legal risks, business and economic risks, operational risks, financial soundness-related risks, government related risks and other risks described herein; and/or
- an increase in the amount of capital that is needed to be held. This might be driven by a change to the actual level of risk faced by the Group or to changes in the minimum levels required by legislation or by the regulatory authorities, or it may be driven by an increase to the Group's view of the management buffer it should hold 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.

Risks associated with the regulatory framework are described below:

Within the prevailing 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 systemic and/or countercyclical 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:

- 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 minimum capital requirements derived from risk-weighted assets are supplemented by the PRA, under Pillar 2 of the regulatory capital framework, through bank specific additional minimum requirements (informed by the ICAAP and set through Individual Capital Guidance) and through buffer requirements (informed by the outcome of PRA stress testing). There is a risk that through these Pillar 2 processes the PRA may require the Group to hold more capital than is currently planned.

In addition, the regulatory framework continues to evolve, which may impact the Group's capital position, for further detail see "*Risk Factors — Regulatory and legal risks — The Group faces risks associated with an uncertain and rapidly evolving international prudential legal and regulatory environment*".

6.4 ***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.

6.5 ***The Group's insurance business and defined benefit pension schemes are subject to insurance risks which could adversely affect the Group's results of operations, financial condition or prospects.***

The insurance business of the Group is exposed to short-term and longer-term variability arising from uncertain longevity due to annuity portfolios. The Group's defined benefit pension schemes are also exposed to longevity risk. Increases in life expectancy (longevity) beyond current allowances will increase the cost of annuities and pension scheme benefits and may adversely affect the Group's financial condition and results of operations.

Customer behaviour in the insurance business may result in increased cancellations or ceasing of contributions 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 and higher levels of theft can increase claims on home insurance. These claims rates may differ from business assumptions and negative developments may adversely affect the Group's financial condition and results of operations.

To a lesser extent the insurance business is exposed to mortality, morbidity and expense risk. Adverse developments in any of these factors 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 of the business 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.

7 Government related risks

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

At 13 May 2016, HM Treasury held approximately 9 per cent. of the Company's ordinary share capital. While this shareholding level is expected to decrease over time, there are no express measures in place to limit the level of influence which may be exercised by HM Treasury. The relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments ("**UKFI**") published on 1 October 2010, which states that UKFI will manage the investments 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 Company, 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 Company, 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 by Lloyds Banking Group plc). 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 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 and Lloyds Bank — Major Shareholders and Related Party Transactions — Other related party transactions with the UK Government*".

8 Other risks

8.1 *The Group's financial statements are based, in part, on assumptions and estimates.*

The preparation of the Group's 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 the Company's Annual Report 2015 filed with the SEC on Form 20-F in "*Note 3 to the consolidated financial statements—Critical accounting estimates and judgements*".

The consolidated financial statements are prepared using judgements, estimates and assumptions based on information available at the reporting date. If one or more of these judgements, estimates and assumptions is subsequently revised as a result of new factors or circumstances emerging, 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.

In July 2014, the International Accounting Standards Board (the "**IASB**") published a new accounting standard for financial instruments (IFRS9) 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 IAS39 (Financial Instruments: "Recognition and Measurement"), resulting in earlier recognition of credit losses. The changes are likely to result in an increase in the Group's balance sheet provisions for credit losses although the extent of any increase will depend on, amongst other things, the composition of the Group's lending portfolios and forecast economic conditions at the date of implementation. The new standard is expected to become effective for annual periods beginning on or after January 2018.

8.2 ***Both the Bank and the Company are dependent on dividends from their subsidiaries to meet their obligations, including payment obligations with respect to debt securities.***

The Bank is a holding company as well as a bank and as such one of its sources of income is dividends from its operating subsidiaries which also hold certain principal assets of the Group. As a separate legal entity, the Bank partly 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.

The Company is a non-operating holding company. The principal sources of the Company'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 Company relies on such distributions in order to be able to meet its obligations, (including its payment obligations with respect to its debt securities) and to create distributable reserves for payment of dividends to ordinary shareholders.

The ability of the Group's subsidiaries (including subsidiaries incorporated outside the UK) to pay dividends and the Company'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 requirements, leverage requirements, any statutory reserve requirements and any applicable tax laws. There may also be restrictions as a result of current or forthcoming local ring-fencing requirements, including those relating to the payment of dividends and the maintenance of sufficient regulatory capital on a sub-consolidated basis at the level of the RFB. These laws and restrictions could limit the payment of dividends and distributions to the Company by its subsidiaries and any other entities in which it holds an investment from time to time, which could restrict the Company's ability to meet its obligations and/or to pay dividends.

8.3 ***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.

9 Risk Factors relating to the Notes and the issuance of dematerialised depositary interests ("CREST Depository Interests" or "CDIs")

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

9.1 ***Risks related to the structure of a particular issue of Notes.***

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

Noteholders' claims against the Bank rank junior to those of depositors

If the relevant Issuer enters into an insolvent winding-up procedure, the administrator, liquidator or other insolvency practitioner would be expected to make distributions of the relevant Issuer's residual assets to its creditors in accordance with a statutory hierarchy or "order of priority". In the case of the Bank, Noteholders rank after claims of retail and certain corporate depositors.

Holders of the Notes may be required to absorb losses in the event the Bank or the Company become subject to recovery and resolution action

See the risk factor entitled "*The Group and its UK subsidiaries may become subject to the provisions of the Banking Act 2009, as amended, which could have an adverse impact on the Group's business*."

The relevant Issuer's obligations under Dated Subordinated Notes are subordinated

The relevant Issuer's obligations under Dated Subordinated Notes will be unsecured and subordinated and will, in the event of the winding-up of the relevant Issuer, be subordinated, in the manner provided in the Trust Deed, to the claims of depositors and all other Senior Creditors (as defined in "*Terms and Conditions of the Notes*" herein). Although Dated Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Dated Subordinated Notes will lose all or some of his investment should the relevant Issuer become insolvent.

Waiver of set-off

The holders of the Dated Subordinated Notes and (unless Senior Notes Waiver of Set-off is stated in the relevant Final Terms to be not applicable) Senior Notes waive any right of set-off, compensation and retention in relation to such Notes insofar as permitted by applicable law.

Substitution, Variation or Redemption of Dated Subordinated Notes upon the occurrence of a Capital Disqualification Event

Where specified in the Final Terms, upon the occurrence and continuation of a Capital Disqualification Event (as defined in Condition 5) (i) the relevant Issuer may, subject as provided in Condition 8 and without the need for any consent of the Noteholders, the Couponholders or the Trustee, substitute all (but not some only) of any Series of Dated Subordinated Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 8) and/or (ii) the relevant Issuer may at its

option but subject to Condition 5*(i)* and without the need for any consent of the Noteholders, the Couponholders or the Trustee, redeem all but not some only of any relevant Series of Dated Subordinated Notes, together (if applicable) with accrued but unpaid interest up to (but excluding) the date fixed for redemption.

Notes are obligations of the relevant Issuer only

The Notes are obligations of the relevant Issuer only and are not guaranteed by any other entity and accordingly the Noteholders have recourse in respect thereof only to the relevant Issuer.

Notes subject to optional redemption by the relevant Issuer

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

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

Redemption for Taxation Reasons

On the occurrence of a Tax Event (as defined in Condition 5(c)), the relevant Issuer may, at its option (but subject to certain conditions, including, in the case of Dated Subordinated Notes, Condition 5(i)) redeem all, but not some only, of any relevant Series of Notes at the applicable Early Redemption Amount together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption.

Potential Conflicts of Interest

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

Notes issued at a substantial discount or premium

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

9.2 ***Risks related to Notes generally.***

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

Modification, waivers and substitution

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

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

Change of law

The Terms and Conditions of the Notes (aside from those relating to Dated Subordinated Notes issued by the Company, which are governed by Scots law) are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law, Scots law or administrative practice after the date of issue of the relevant Notes.

Notes where denominations involve integral multiples

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

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

Holding CREST Depository Interests

Investors who hold through CREST through the issuance of CDIs ("**CDI Holders**") will hold or have an interest in a separate legal instrument and not be the legal owners of the Notes underlying the CDIs (the "**Underlying Notes**"). Such CDIs will be issued to CDI Holders pursuant to the global deed poll dated 25 June 2001 (as subsequently modified, supplemented and/or restated) (the "**CREST Deed Poll**") that will bind such CDI Holders. Fees, charges, costs and expenses may be incurred in connection with the use of the CREST International Settlement Links Service.

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

For further information on the issue and holding of CDIs see "*Clearing and Settlement*".

10 Potential U.S. Foreign Account Tax Compliance Act withholding and information reporting

FATCA

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a "foreign financial institution" may be required to withholding on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuers believe that they are foreign financial institutions for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of FATCA to instruments such as the Notes, including whether withholding would

ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments made prior to 1 January 2019 and Notes that are not issued more than six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding in respect of foreign passthru payments unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from outstanding Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including outstanding Notes issued during the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding. Prospective Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

Information reporting obligations

Information relating to the Notes, their holders and beneficial owners may be required to be provided to tax authorities in certain circumstances pursuant to domestic or international reporting and transparency regimes. This may include (but is not limited to) information relating to the value of the Notes, amounts paid or credited with respect to the Notes, details of the holders or beneficial owners of the Notes and information and documents in connection with transactions relating to the Notes. In certain circumstances, the information obtained by a tax authority may be provided to tax authorities in other countries. Some jurisdictions operate a withholding system in place of, or in addition to, such provision of information requirements.

11 Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

Interest rate risk

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

Credit ratings may not reflect all risks

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

Effect of credit rating reduction

The value of the Notes is expected to be affected, in part, by investors' general appraisal of the relevant Issuer's creditworthiness. Such perceptions are generally influenced by the ratings accorded to the relevant Issuer's outstanding securities by standard statistical rating services, such as Moody's, S&P and Fitch. A reduction in the rating, if any, accorded to outstanding debt securities of the relevant Issuer by one of these rating agencies could result in a reduction in the trading value of the Notes.

*Investors to rely on the procedures of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), Luxembourg for transfer, payment and communication with the relevant Issuer*

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

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

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

12 Risks related to Notes denominated in Renminbi ("Renminbi Notes")

*The Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the People's Republic of China (the "**PRC**") which may adversely affect the liquidity of Renminbi Notes.*

The Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between the Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. This represents a current account activity. Remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filing with, the relevant authorities and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

There is no assurance that the PRC government will continue to liberalise the control over cross-border RMB remittances in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the relevant Issuer to source Renminbi to finance its obligations under the Renminbi Notes.

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

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the relevant Issuer's ability to source Renminbi outside the PRC to service such Renminbi Notes

As a result of the restrictions imposed by the PRC government on cross border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. The People's Bank of China ("**PBOC**") has established a Renminbi clearing and settlement system with financial institutions in other major global financial centres (each an "**RMB Clearing Bank**") through settlement agreements (the "**Settlement Agreements**") with each such financial institution to act as the RMB Clearing Bank in the relevant designated financial centre.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. They are only allowed to square their open positions with the relevant RMB Clearing Bank after consolidating the Renminbi trade position of banks outside of the Renminbi business participating financial centres that are in the same bank group of the participating banks concerned with their own trade position and the relevant RMB Clearing Bank only has access to onshore liquidity support from PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside

the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the relevant Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the relevant Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Notes is subject to exchange rate risks and the relevant Issuer may make payments of interest and principal in U.S. dollars in certain circumstances

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

In the event that access to Renminbi becomes restricted to the extent that, by reason of Inconvertibility, Non-transferability, Illiquidity or any other Scheduled Payment Currency Disruption Event (each as defined in the Terms and Conditions), the relevant Issuer is unable, or it is impractical for it, to pay interest or principal in Renminbi, the Terms and Conditions allow the relevant Issuer to make payments in U.S. dollars or other foreign currency at the prevailing spot rate of exchange, all as provided in more detail in the Terms and Conditions. As a result, the value of these Renminbi payments may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of a holder's investment in the U.S. dollar or other foreign currency terms will decline.

An investment in Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The Renminbi Notes may carry a fixed interest rate. Consequently, the trading price of such Renminbi Notes will vary with fluctuations in interest rates. If a holder of Renminbi Notes tries to sell any Renminbi Notes before their maturity, they may receive an offer that is less than the amount invested.

Payments in respect of the Renminbi Notes will only be made to investors in the manner specified in the Terms and Conditions of the relevant Notes.

Investors may be required to provide certification and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by a Global Note or a Global Certificate held with the common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg or any alternative clearing system, by transfer to a Renminbi bank account maintained in the RMB Settlement Centre(s) (as defined below) in accordance with prevailing Euroclear and/or Clearstream, Luxembourg rules and procedures, or (ii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in the RMB Settlement Centre(s) in accordance with prevailing rules and regulations. Other than as described in the Terms and Conditions, the relevant Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft, or by transfer to a bank account in the PRC).

"**RMB Settlement Centre(s)**" means the financial centre(s) specified as such in the applicable Final Terms or Pricing Supplement in accordance with applicable laws and regulations. If no RMB Settlement Centre is specified in the relevant Final Terms or Pricing Supplement, the RMB Settlement Centre shall be deemed to be Hong Kong.

13 Risks related to payment of Notes in an Alternative Currency

The relevant Issuer's primary obligation is to make all payments of interest, principal and other amounts with respect to Notes in the relevant Specified Currency. However, if Alternative Currency Equivalent is specified to be applicable and if access to the Specified Currency becomes restricted, the relevant Issuer may in its sole and absolute discretion (i) postpone the payment of any such amounts, (ii) make any such payment in the relevant Alternative Currency at the rates, and in the manner, set out in Condition 6*(i)* and the relevant Final Terms, (iii) postpone the payment and make such payment in the relevant Alternative Currency or (iv) cancel or redeem the Notes.

TERMS AND CONDITIONS OF THE NOTES

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

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

The issuer of the Notes is either Lloyds Bank plc or Lloyds Banking Group plc (the "**Company**") (each an "**Issuer**" and together, the "**Issuers**") as specified in the Final Terms. The Notes are constituted by a Trust Deed originally dated 4 October 1996 as amended and restated on 17 May 2016 (as modified and/or supplemented and/or restated as at the date of issue of the first Tranche of the Notes (the "**Issue Date**"), the "**Trust Deed**") between the Issuers and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement dated 4 October 1996 and amended and restated on 17 May 2016 (as modified and/or supplemented and/or restated as at the Issue Date, the "**Agency Agreement**") has been entered into in relation to the Notes between the Issuers, the Trustee, Citibank, N.A., London Branch, as issuing and paying agent and, in respect of CMU Notes (as defined below), Citicorp International Limited and the other agents named in it. The issuing and paying agent in respect of Notes other than CMU Notes, the issuing and paying agent in respect of CMU Notes, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall, where the context so permits, include the Issuing and Paying Agent and the CMU Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall, where the context so permits, include the Registrar) and the "**Calculation Agent(s)**" provided that references in these Conditions to the Issuing and Paying Agent shall, in respect of CMU Notes, be construed as references to the CMU Issuing and Paying Agent. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Trustee (being, for the time being, Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") 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.

For the purpose of these Terms and Conditions, the "**Issuer**" means the relevant Issuer specified in the Final Terms, being the issuer of the Notes, a "**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number. "**Tranche**" means, in

relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical. "**Final Terms**" means, in relation to a Tranche, the final terms issued specifying the relevant issue details of such Tranche, substantially in the form of Schedule C to the dealer agreement dated 17 May 2016 between the Issuers, the co-arrangers and the other dealers named therein (the "**Final Terms**").

1 Form, Denomination and Title

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

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

The Notes (i) bear interest calculated by reference to a fixed rate of interest ("**Fixed Rate Notes**"), (ii) bear interest calculated by reference to a fixed rate of interest for an initial period and thereafter by reference to a fixed rate of interest recalculated on one or more dates specified in the Final Terms and by reference to a mid-market swap rate for the Specified Currency or, where the Specified Currency is Sterling, either a Sterling mid-market swap rate or a rate determined by reference to a benchmark gilt ("**Fixed Rate Reset Notes**"), (iii) bear interest by reference to a floating rate of interest ("**Floating Rate Notes**"), (iv) are issued on a non-interest bearing basis ("**Zero Coupon Notes**") or (v) are a combination of two or more of (i) to (iii) of the foregoing, as specified in the Final Terms.

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

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

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register 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 (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

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

2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2*(f)*, Exchangeable Bearer Notes may be exchanged for the same aggregate nominal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured

Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 6*(b)*) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

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

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

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

(d) Delivery of New Certificates

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

(e) Exchange Free of Charge

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the 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 reasonably require).

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 5*(e)*, (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

3 Status

(a) No Set-off, compensation or retention

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

Unless Senior Notes Waiver of Set-off is specified in the Final Terms in respect of Senior Notes as being not applicable, the previous paragraph shall apply to the Senior Notes, the relative Coupons and each Noteholder and Couponholder in respect of such Senior Notes *mutatis mutandis* and as if references in that paragraph to Dated Subordinated Notes were references to such Senior Notes.

(b) Status of Senior Notes

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

(c) Status of Dated Subordinated Notes

The Dated Subordinated Notes (being any Series of Notes the Final Terms in respect of which specify their status as Dated Subordinated) and the Coupons relating to them constitute unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves. The claims of the Trustee, the Noteholders and the Couponholders in respect of the Dated Subordinated Notes and the Coupons relating to them are subordinated in the manner provided below.

In the event of:

(i) an order being made, or an effective resolution being 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 (as defined in the Trust Deed) 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 Dated Subordinated Notes shall thereby become redeemable or repayable in accordance with these Conditions); or

(ii) an administrator of the Issuer being appointed and such administrator declaring, or giving notice that it intends to declare and distribute, a dividend,

the rights and claims of the holders of the Dated Subordinated Notes and the Couponholders against the Issuer in respect of or arising under the Dated Subordinated Notes, the Coupons relating to them and the Trust Deed shall be for an amount equal to the principal amount of, and any applicable premium on, the relevant Dated Subordinated Notes (in the case of the relevant Noteholders) together with any accrued but unpaid interest thereon (in the case of the relevant Noteholders or Couponholders), provided however that such rights and claims will be subordinated, in the manner provided in this Condition 3(*c*) and in the Trust Deed, to the claims of all Senior Creditors of the Issuer but shall rank (a) at least *pari passu* with the claims of holders of all obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer and in priority to (1) the claims of holders of all obligations of the Issuer which constitute Tier 1 Capital of the Issuer, (2) the claims of holders of all undated or perpetual subordinated obligations of the Issuer and (3) the claims of holders of all share capital of the Issuer.

The provisions of this Condition 3(*c*) apply only to the principal, premium and interest and any other amounts payable in respect of the Dated Subordinated Notes and the Coupons relating to them and nothing in this Condition 3(*c*) 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.

Dated Subordinated Notes have no provisions for the deferral of payments.

For the purposes of these Conditions:

"**Senior Creditors**" means in respect of the Issuer (a) creditors of the Issuer whose claims are admitted to proof in the winding-up or administration of the Issuer and who are unsubordinated creditors of the Issuer and (b) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims relate to obligations which constitute, or would, but for any applicable limitation on the amount of such capital, constitute Tier 1 Capital or Tier 2 Capital of the Issuer, or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of holders of the Dated Subordinated Notes).

"**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.

4 Interest and other Calculations

(a) Interest on Fixed Rate Notes

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

(b) Interest on Fixed Rate Reset Notes

Each Fixed Rate Reset Note bears interest on its outstanding nominal amount:

(i) from and including the Interest Commencement Date up to but excluding the First Reset Date at the Initial Rate of Interest;

(ii) in the First Reset Period, at the First Reset Rate of Interest; and

(iii) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Rate of Interest,

payable, subject as provided herein, in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with this Condition 4.

Save as otherwise provided herein, the provisions applicable to Fixed Rate Notes shall apply to Fixed Rate Reset Notes.

In these Conditions:

"**Anniversary Date(s)**" means each date specified as such in the Final Terms;

"**Benchmark Gilt**" means, in respect of a Reset Period, such United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Calculation Agent, with the advice of the Reset Reference Banks, may determine to be appropriate;

"**Benchmark Gilt Rate**" means, in respect of a Reset Period, the gross redemption yield (as calculated by the Calculation Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 3.00 p.m. (London time) on the relevant Reset Determination Date on a dealing basis for settlement on the next following dealing day in London. If at least four quotations are provided, the Benchmark Gilt 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 Benchmark Gilt Rate will be the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Rate will be the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Rate will be determined by the Calculation Agent in its sole discretion following consultation with the Issuer;

"**dealing day**" means a day, other than a Saturday or Sunday, on which the London Stock Exchange (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"**First Reset Date**" means the date specified as such in the Final Terms;

"**First Reset Period**" means the period from and including the First Reset Date up to but excluding the Second Reset Date or, if no such Second Reset Date is specified in the Final Terms, the date fixed for redemption of the Notes (if any);

"**First Reset Rate of Interest**" means the rate of interest as determined by the Calculation Agent on the Reset Determination Date corresponding to the First Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

"**Initial Rate of Interest**" means the initial rate of interest per annum specified in the Final Terms;

"**Margin**" means the margin (expressed as a percentage) in relation to the relevant Reset Period specified as such in the Final Terms;

"**Mid-Swap Quotations**" means the arithmetic mean of the bid and offered rates:

(i) if the Specified Currency is Sterling, for a semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in Sterling which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (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), unless as otherwise specified in the Final Terms;

(ii) if the Specified Currency is euro, 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 that of the relevant Swap Rate Period; (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), unless as otherwise specified in the Final Terms;

(iii) if the Specified Currency is US dollars, for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed for floating interest rate swap transaction in US dollars which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (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 3-month LIBOR rate (calculated on an Actual/360 day count basis), unless as otherwise specified in the Final Terms;

(iv) if the Specified Currency is Renminbi, for the semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed for floating interest rate swap transaction in Renminbi which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (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 12-month CNH HIBOR rate (calculated on an Actual/365 day count basis), unless as otherwise specified in the Final Terms; and

(v) if the Specified Currency is not Sterling, euro, US dollars or Renminbi, for the Fixed Leg (as set out in the Final Terms) of a fixed for floating interest rate swap transaction in that Specified Currency which (i) has a term commencing on the relevant Reset Date which is equal to that of the relevant Swap Rate Period; (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 (as set out in the Final Terms);

"**Mid-Swap Rate**" means in respect of a Reset Period, (i) the applicable semi-annual or annualised (as specified in the applicable Final Terms) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified in the Final Terms) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date (which rate, if the relevant Interest Payment Dates are other than semi-annual or annual Interest Payment Dates, shall be adjusted by, and in the manner determined by, the Calculation Agent) or (ii) if such rate is not displayed on the Screen Page at such time and date, the relevant Reset Reference Bank Rate;

"**Reset Determination Date**" means, in respect of a Reset Period, (a) each date specified as such in the Final Terms or, if none is so specified, (b) (i) if the Specified Currency is Sterling or Renminbi, the first Business Day of such Reset Period, (ii) if the Specified Currency is euro, the day falling two TARGET Business Days prior to the first day of such Reset Period, (iii) if the Specified Currency is US dollars, the day falling two U.S. Government Securities Business Days prior to the first day of such Reset Period (iv) for any other Specified Currency, the day falling two Business Days in the principal financial centre for such Specified Currency prior to the first day of such Reset Period;

"**Reset Date**" means each of the First Reset Date, the Second Reset Date and each of the Anniversary Dates (if any) as is specified in the Final Terms;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period;

"**Reset Rate**" means (a) if 'Mid-Swap Rate' is specified in the Final Terms, the relevant Mid-Swap Rate or (b) if 'Benchmark Gilt Rate' is specified in the Final Terms, the relevant Benchmark Gilt Rate;

"**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. in the principal financial centre of the Specified Currency (which in the case of Renminbi shall, for these purposes, be Hong Kong) 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;

"**Reset Reference Banks**" means (i) in the case of the calculation of a Reset Reference Bank Rate, five leading swap dealers in the principal interbank market relating to the Specified Currency selected by the Calculation Agent in its discretion after consultation with the Issuer or (ii) in the case of a Benchmark Gilt Rate, five brokers of gilts and/or gilt-edged market makers selected by the Calculation Agent in its discretion after consultation with the Issuer;

"**Screen Page**" means Reuters screen page "ISDAFIX1", "ISDAFIX2", "ISDAFIX3", "ISDAFIX4", "ISDAFIX5" or "ISDAFIX6" as specified in the Final Terms or such other page on Thomson Reuters as is specified in the Final Terms, or such other screen page as may replace it on Thomson Reuters or, as the case may be, on such other information service that may replace Thomson 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;

"**Second Reset Date**" means the date specified as such in the Final Terms;

"**Subsequent Reset Period**" means the period from and including the Second 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;

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period, the rate of interest determined by the Calculation Agent on the Reset Determination Date corresponding to such Subsequent Reset Period as the sum of the relevant Reset Rate plus the relevant Margin;

"**Swap Rate Period**" means the period or periods specified as such in the Final Terms; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(c) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 4*(g)*. Such Interest Payment Date(s) is/are either specified in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are specified in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period specified in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

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

(iii) Rate of Interest for Floating Rate Notes

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

(A) ISDA Determination for Floating Rate Notes

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

(x) the Floating Rate Option is as specified in the Final Terms;

(y) the Designated Maturity is a period specified in the Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

provided that, if no Rate of Interest can be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined by the Calculation Agent in its sole and absolute discretion (though applying the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest, if any, relating to the Interest Accrual Period).

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

(B) Screen Rate Determination for Floating Rate Notes

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

(i) the offered quotation; or

(ii) the arithmetic mean of the offered quotations,

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

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(i) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(ii) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Eurozone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies, the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Eurozone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified

hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate and (b) in relation to ISDA Determination, the Designated Maturity.

(d) Zero Coupon Notes

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

(e) Accrual of Interest

Interest (if any) shall cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless (upon due presentation thereof where presentation is required), payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest shall continue to accrue or, in the case of Zero Coupon Notes, shall accrue (in each case, both before and after judgment) at the Rate of Interest in the manner provided in this Condition 4 to (but excluding) the Relevant Date (as defined in Condition 8).

(f) Margin, Maximum Rate of Interest, Minimum Rates of Interest, Redemption Amounts and Rounding

(i) If any Margin is specified in the Final Terms (either (A) generally, (B) in relation to one or more Interest Accrual Periods or (C) in relation to one or more Reset Periods), an adjustment shall, unless the relevant Margin has already been taken into account in determining such Rate of Interest, be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods or Reset Periods, in the case of (B) or (C), calculated, in each case, in accordance with this Condition 4 by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always (in the case of Floating Rate Notes only) to the next paragraph.

(ii) If any Maximum Rate of Interest or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be. Further, unless otherwise stated in the Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C)

all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(g) Calculations

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

(h) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

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

(i) Determination or Calculation by Trustee

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

(j) Definitions

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

"**Business Day**" means:

(i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); or

(iii) in the case of Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; and

(iv) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in any Business Centre(s) specified in the Final Terms.

(v) "**CMU Notes**" means Notes denominated in any lawful currency which the CMU Service accepts for settlement from time to time that are, or are intended to be, cleared through the CMU Service.

(vi) "**CMU Service**" or "**CMU**" means the Central Moneymarkets Unit Service operated by the HKMA.

"**Calculation Amount**" means the amount by reference to which the Interest Amount and the Final Redemption Amount are calculated as specified in the Final Terms.

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

(i) if "**Actual/365**" or "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

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

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

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

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

(vii) if "**Actual/Actual ICMA**" is specified in the Final Terms:

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

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

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

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

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

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

where:

"**Determination Period**" means the period from and including a Determination Date (as specified in the Final Terms) in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such in the Final Terms or, if none is so specified, the Interest Payment Date.

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

"**Eurozone**" means the region comprised of member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Hong Kong**" means the Hong Kong Special Administrative Region of the Peoples' Republic of China.

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

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

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the Final Terms as being payable on the Interest Payment Date ending on the Interest Period of which such Interest Accrual Period forms part; and

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

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

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date unless otherwise specified in the Final Terms.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the Final Terms.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc. (or as otherwise specified in the Final Terms).

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

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions in the Final Terms.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market, in each case selected by the Calculation Agent or as specified in the Final Terms.

"**Reference Rate**" means the rate specified as such in the Final Terms.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the Final Terms (or any successor or replacement page, section, caption, column or other part of a particular information service).

"**Relevant Time**" means, if the Reference Rate is LIBOR, approximately 11.00 a.m. (London time) or if the Reference Rate is EURIBOR, 11.00 a.m. (Brussels time) or as otherwise specified in the Final Terms.

"**Renminbi**" means the lawful currency of the People's Republic of China.

"**Specified Currency**" means the currency specified in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

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

(k) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Final Terms and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent or, pursuant to Condition 4(*i*), the Trustee fails duly to establish the Rate of Interest for an Interest Accrual Period or Reset Period or to calculate any Interest Amount, Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money or swap market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(l) Nature of the Return

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

5 Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount(s) (which, unless otherwise provided in the Final Terms, is its nominal amount).

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 5*(c),* Condition 5*(d),* Condition 5*(e)* or

Condition 5*(f)* or upon it becoming due and repayable as provided in Condition 10, shall be the Amortised Face Amount (as defined and calculated below) of such Note unless otherwise specified in the Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount(s) of such Note on the Maturity Date discounted back to the due date for payment at a rate per annum (expressed as a percentage) equal to the Amortisation Yield applied on a compounded or non-compounded basis as specified in the Final Terms (which, if none is specified in the Final Terms, shall be such rate (compounded annually) as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) (the "**Amortised Face Amount**").

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

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

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 5*(c),* Condition 5*(d)*, Condition 5*(e)* or Condition 5*(f)* shall be the Final Redemption Amount(s) unless otherwise specified in the Final Terms.

(c) Redemption for Taxation Reasons

The Issuer may at its option (subject, in the case of Dated Subordinated Notes, to Condition 5*(i)*), having given not less than 30 nor more than 60 days' notice in accordance with Condition 15, redeem all, but not some only, of the Notes outstanding on (if the Notes are Floating Rate Notes) the next Interest Payment Date or (if the Notes are not Floating Rate Notes) at any time at the Early Redemption Amount, together with any accrued but unpaid interest up to (but excluding) the date fixed for redemption, if, at any time, the Issuer shall satisfy the Trustee (immediately prior to the giving of the notice referred to above) that a Tax Event has occurred.

The Issuer shall deliver to the Trustee an opinion of an independent lawyer or accountant satisfactory to the Trustee, in a form satisfactory to the Trustee, to the effect that a Tax Event exists. The Trustee may accept such opinion without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the

Issuer, the Trustee, the Noteholders and the Couponholders, and the Trustee will not be responsible for any loss that may be occasioned by the Trustee's acting or relying on such opinion.

A "**Tax Event**" shall be deemed to have occurred if:

(i) as a result of a Tax Law Change:

(A) in making payment under the Notes, the Issuer has or would on or before the next Interest Payment Date or the Maturity Date become obliged to pay additional amounts under Condition 8 (and such obligation cannot be avoided by the Issuer taking reasonable measures available to it);

(B) the payment of interest on the next Interest Payment Date or the Maturity Date in respect of any of the Notes would be treated as a "distribution" within the meaning of Chapter 2 of Part 23 of the Corporation Tax Act 2010 of the United Kingdom (or any statutory modification or re-enactment thereof for the time being); and/or

(C) on the next Interest Payment Date or the Maturity Date the Issuer would not be entitled to claim a deduction in respect of any payments in respect of the Notes in computing its United Kingdom taxation liabilities (or the value of such deduction to the Issuer would be materially reduced);

(ii) and also, for the purposes of any Dated Subordinated Notes only, if a Tax Law Change would:

(A) prevent the Dated Subordinated Notes from being treated as loan relationships for United Kingdom tax purposes;

(B) as a result of the Dated Subordinated Notes 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 Dated Subordinated Notes or any similar system or systems having like effect as may from time to time exist);

(C) 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 Dated Subordinated Notes; and/or

(D) result in a Dated Subordinated Note or any part thereof being treated as a derivative or an embedded derivative for United Kingdom tax purposes,

provided in each of (ii)(A) to (D) that the Issuer could not avoid the foregoing in connection with the Dated Subordinated Notes by taking reasonable measures available to it.

In these Conditions, "**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 authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority, which change or amendment (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), on or after the Issue Date.

(d) Redemption of Dated Subordinated Notes following the occurrence of a Capital Disqualification Event

Where a Capital Disqualification Event Call is specified as being applicable in the Final Terms relating to Dated Subordinated Notes, the Issuer may at its option but subject to Condition 5*(i)*, having given not less than 30 nor more than 60 days' notice in accordance with Condition 15, redeem all but not some only of the Notes at any time at the Early Redemption Amount, together (if applicable) with any accrued but unpaid interest up to (but excluding) the date fixed for redemption, if immediately prior to the giving of the notice referred to above, it satisfies the Trustee that a Capital Disqualification Event has occurred.

In these Conditions:

A "**Capital Disqualification Event**" shall be deemed to have occurred if at any time the Issuer determines that there is a change (which has occurred or which the Relevant Regulator considers to be sufficiently certain) in the regulatory classification of the relevant series of Dated Subordinated Notes, in any such case becoming effective on or after the Issue Date, that results, or would be likely to result, in the entire principal amount of such series of Dated Subordinated Notes being excluded from the Tier 2 Capital of the Issuer and/or the Group (other than as a result of any applicable limitation on the amount of such capital).

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

"**Relevant Regulator**" means the Prudential Regulation Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to the Issuer and/or the Group.

(e) Redemption at the Option of the Issuer

If Call Option is specified in the Final Terms, the Issuer may at its option (subject, in the case of Dated Subordinated Notes, to Condition 5(*i*)), on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders and the Trustee (or such other notice period as may be specified in the Final Terms), redeem all or, if so provided, some only of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5*(b)* above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

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

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

(f) Redemption at the Option of Noteholders other than holders of Dated Subordinated Notes

If Put Option is specified in the Final Terms in respect of Senior Notes, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified in the Final Terms (which may be the Early Redemption Amount (as described in Condition 5*(b)* above)), together with interest accrued to the date fixed for redemption .

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

(g) Purchases

Subject to Condition 5*(i)* in the case of Dated Subordinated Notes, the Issuer or any of its subsidiaries or any holding company of the Issuer or any other subsidiary of any such holding company may at any time, but is not obliged to, purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any Notes so purchased or otherwise acquired may, at the Issuer's discretion, be held or resold or surrendered for cancellation.

(h) Cancellation

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

(i) Conditions to Redemption and Purchase of Dated Subordinated Notes

Any redemption or purchase of Dated Subordinated Notes in accordance with Conditions 5*(c)*, *(d)*, *(e)* or *(g)* is subject to:

(A) the Issuer giving notice to the Relevant Regulator and the Relevant Regulator granting permission to the Issuer to redeem or purchase the relevant Dated Subordinated Notes;

(B) in respect of any redemption of the relevant Dated Subordinated Notes proposed to be made prior to the fifth anniversary of the Issue Date, if and to the extent then required under the relevant Regulatory Capital Requirements (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; and

(C) if and to the extent then required under the prevailing Regulatory Capital Requirements (a) on or before the relevant redemption date, the Issuer replacing the Dated Subordinated Notes with instruments qualifying as own funds of equal or higher quality on terms that are sustainable for the income capacity of the Issuer or (b) the Issuer demonstrating to the satisfaction of the Relevant Regulator that its Tier 1 capital and Tier 2 capital would, following such redemption, exceed its minimum capital requirements by a margin that the Relevant Regulator may consider necessary at such time based on the Regulatory Capital Requirements.

Notwithstanding the above conditions, if, at the time of any redemption or purchase, the prevailing Regulatory Capital Requirements permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 5*(i)*, the Issuer shall comply with such other and/or, as appropriate, additional pre-condition(s).

In these Conditions, "**Regulatory Capital Requirements**" means any applicable minimum capital or capital requirement specified for banks or financial groups by the Relevant Regulator.

Prior to the publication of any notice of redemption pursuant to this Condition 5 (other than redemption on the relevant Maturity Date), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer, in a form satisfactory to the Trustee, certifying that the relevant requirement or circumstance giving rise to the right to redeem is satisfied, including (in the case of a Tax Event or a Capital Disqualification Event (as applicable)) that a Tax Event (as defined in Condition 5*(c)* above) or a Capital Disqualification Event (as defined in Condition 5*(d)* above) (as applicable) exists. The Trustee may accept such certificate without any further inquiry as sufficient evidence of the existence of the circumstances required to be established in which event it shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders and the Trustee will not be responsible for any loss that maybe occasioned by the Trustee's acting or relying on such certificate.

6 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (and, in the case of interest, as specified in Condition 6*(f)*(v)) or Coupons (in the case of interest, save as specified in Condition 6*(f)*(ii)), as the case may be:

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

(ii) in the case of euro, at the specified office of any Paying Agent outside the United States by a cheque payable in euro drawn on, or, at the option of the holder, by transfer to an account denominated in euro with, a bank in a city in which banks have access to the TARGET System; and

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

(b) Registered Notes

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(a) in the case of a currency other than Renminbi, in the relevant currency by a cheque drawn on a bank in the principal financial centre of such currency, subject as provided in paragraph *(a)* above, and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in paragraph *(a)* above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in the principal financial centre of such currency; and

(b) in the case of Renminbi, by transfer to the registered account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(c) Payments in the United States

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

(d) Payments subject to Fiscal Laws

Save as provided in Condition 8, payments 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 respective 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 Noteholders or Couponholders in respect of such payments. The Issuer reserves the right to require a Noteholder or Couponholder to provide a Paying Agent, the Registrar or a Transfer Agent with such certification or information as may be required to enable the Issuer to comply with the requirements of the United States federal income tax laws or any agreement between the Issuer and any taxing authority.

(e) Appointment of Agents

The Issuing and Paying Agent, the other Paying Agents, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Trust Deed and the Agency Agreement, the Issuing and Paying Agent, the other Paying Agents, the

Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes which may be the Registrar, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in Europe, which, so long as the Notes are listed on the official list (the "**Official List**") of the designated competent authority from time to time under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") and are admitted to trading on the London Stock Exchange plc's Regulated Market, shall be in London and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case as approved by the Trustee. In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

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

(f) Unmatured Coupons and unexchanged Talons

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than any Fixed Rate Notes where the total value of the unmatured coupons appertaining thereto exceeds the nominal amount of such Note), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount(s), Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or (where the total value of the unmatured coupons exceeds the minimal amount of such Note) a Fixed Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement

Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

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

(h) Non-Business Days

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

(i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or

(iii) (in the case of a payment in euro) which is a TARGET Business Day.

(i) Payment of Alternative Currency Equivalent

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

(a) determine that the relevant payment of the Issuer in respect of the Notes be postponed to a date which falls after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist (in the determination of the Alternative Currency Adjudication Agent) provided that such postponement does not exceed the number of Business Days (such number, the "**Maximum Days of Postponement**") specified in the relevant Final Terms, or, if that would not be commercially reasonable, as soon as commercially reasonable thereafter, in which case the relevant payment will be due on the date as so postponed, without any interest or other sum payable in respect of the postponement of the payment of such amount;

(b) determine that the Issuer's obligation to make any payment in respect of the Notes in the Scheduled Payment Currency be replaced by an obligation to make payment of the Alternative Currency Equivalent of such payment, in which case, it will settle any such obligation by payment of the relevant Alternative Currency Equivalent on the due date for payment;

(c) determine that the relevant payment in respect of the Notes be postponed to a date which falls after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist (in the determination of the Alternative Currency Adjudication Agent) provided that such postponement does not exceed the Maximum Days of Postponement after the date on which the relevant Scheduled Payment Currency Disruption Event ceases to exist, or, if, in the determination of the Alternative Currency Adjudication Agent, that would not be commercially reasonable, as soon as commercially reasonable thereafter (such postponed payment date, the "**Postponed Payment Date**"), and that the Issuer's obligation to make payment in respect of the Notes in the Scheduled Payment Currency be replaced by an obligation to make payment of the Alternative Currency Equivalent, in which case, it will settle any such obligation by payment of the relevant Alternative Currency Equivalent on the Postponed Payment Date, without any interest or other sum payable in respect of the postponement of the payment of such amount; or

(d) give notice to the Noteholders in accordance with Condition 15 and redeem all, but not some only, of the Notes on a date selected by the Issuer, by payment of the Alternative Currency Equivalent of, or, if so specified in such notice, an amount in the Scheduled Payment Currency equal to, the Early Redemption Amount. Payment will be made in such manner as shall be notified to the Noteholders in accordance with Condition 15.

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

Upon the occurrence of a Scheduled Payment Currency Disruption Event and the Alternative Currency Adjudication Agent making a determination that, by reason of such Scheduled Payment Currency Disruption Event, it would, in the opinion of the Alternative Currency Adjudication Agent, be commercially impracticable for the Issuer to satisfy its payment obligations in respect of the Notes when due in the Scheduled Payment Currency, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 15 stating the occurrence of the Scheduled Payment Currency Disruption Event, giving details thereof and the action proposed to be taken in relation thereto.

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

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

As used herein:

"**Affiliate**" is to, in relation to any entity (the "**First Entity**"), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity, where, for these purposes, "**control**" means ownership of a majority of the voting power of an entity;

"**Alternative Currency**" means the currency specified as such in the relevant Final Terms (or any lawful successor currency to that currency), or, if no Alternative Currency is specified in the relevant Final Terms, U.S. dollars;

"**Alternative Currency Adjudication Agent**" means the Alternative Currency Adjudication Agent specified in the relevant Final Terms (or any lawful successor to the Alternative Currency Adjudication Agent);

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

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

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

"**Illiquidity**" means (i) in respect of any payment obligation in respect of the Notes of any sum, foreign exchange markets for the Scheduled Payment Currency becoming illiquid (including, without limitation, the existence of any significant price distortion) or unavailable as a result of which it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Issuer and/or any of its Affiliates to obtain a sufficient amount of the Scheduled Payment Currency in order to satisfy any such obligation or (ii) it becomes impossible or impracticable to obtain a firm quote for exchange of the Scheduled Payment Currency into the Alternative Currency, in each case, as determined by the Alternative Currency Adjudication Agent in its sole and absolute discretion;

"**Inconvertibility**" means, in respect of any payment or obligation in respect of the Notes, the occurrence of any event that makes it impossible, illegal or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Issuer and/or any of its Affiliates to convert any amount due in respect of the Notes in the foreign exchange markets for the Scheduled Payment Currency (including, without limitation, any event that has the direct or indirect effect of hindering, limiting or restricting convertibility by way of any delays, increased costs or discriminatory rates of exchange or any current or future restrictions on repatriation of one currency into another currency)

other than where such impossibility or impracticability is due solely to the failure of the Issuer and/or any of its Affiliates to comply with any law, rule or regulation enacted by any relevant Governmental Authority (unless such law, rule or regulation becomes effective on or after the Trade Date and it is impossible or, in the opinion of the Alternative Currency Adjudication Agent, commercially impracticable for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

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

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

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

"**Rate Calculation Jurisdiction**" means the jurisdiction(s) specified in the Final Terms, which shall include the Eurozone where the Scheduled Payment Currency is euro or Hong Kong where the Scheduled Payment Currency is Renminbi;

"**Scheduled Payment Currency**" means, the Specified Currency;

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

(i) Inconvertibility;

(ii) Non-transferability;

(iii) Illiquidity;

(iv) the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) the Issuer deems necessary to hedge the currency risk of the Issuer issuing and performing its obligations with respect to the Notes or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s); and/or

(v) any other event specified as a Scheduled Payment Currency Disruption Event in the relevant Final Terms;

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

"**Settlement Rate Option**" means, as specified in the relevant Final Terms, (i) such "**Settlement Rate Options**" as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee or (ii) if "Alternative Currency Calculation Agent Determination" is specified as the Settlement Rate Option in the relevant Final Terms, such rate for the exchange of the Scheduled Payment Currency into U.S. dollars as determined by the Alternative Currency Calculation Agent, taking into consideration all available information that it deems relevant;

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

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

"**USD Settlement Rate Option**" means, as specified in the relevant Final Terms, the USD Settlement Rate Option derived from such other "**Settlement Rate Options**", as may be included from time to time in Annex A to the 1998 FX and Currency Option Definitions, published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Traders Association and the Foreign Exchange Committee or (ii) if "Alternative Currency Calculation Agent Determination" is specified as the USD Settlement Rate Option in the relevant Final Terms, such rate for the exchange of U.S. dollars into the Alternative Currency as determined by the Alternative Currency Calculation Agent, taking into consideration all available information that it deems relevant; and

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

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

Where Capital Disqualification Event Substitution and Variation is specified in the Final Terms in respect of Dated Subordinated Notes as being applicable and the Issuer has satisfied the Trustee that a Capital Disqualification Event (as defined in Condition 5*(d)*) has occurred and is continuing, then the Issuer may, subject to the other provisions of this Condition 7 (without any requirement for the consent or approval of the Noteholders or the Trustee (subject to the notice requirements below)) either substitute all (but not some only) of the Dated Subordinated Notes for, or vary the terms of the Dated Subordinated Notes so that they remain or, as appropriate, become, Compliant Securities. Upon the expiry of the notice required by this Condition 7, the Issuer shall either vary the terms of, or substitute, the Dated Subordinated Notes in accordance with this Condition 7, as the case may be and, subject as set out below, the Trustee shall agree to such substitution or variation.

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

Any substitution or variation in accordance with this Condition 7 is subject to the Issuer (i) obtaining the permission therefor from the Relevant Regulator, provided that at the relevant time such permission is required to be given; and (ii) giving not less than 30 nor more than 60 calendar days' notice to the Noteholders and the Couponholders (which notice shall be irrevocable), the Trustee and the Paying Agents, in accordance with Condition 15, which notice shall be irrevocable.

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

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

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

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

As used in this Condition 7:

"**Compliant Securities**" means securities issued directly or indirectly by the Issuer that:

(a) are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a subordinated guarantee of such obligations by the Issuer;

(b) rank (or if guaranteed by the Issuer benefit from a guarantee that ranks) equally with the ranking of the Dated Subordinated Notes;

(c) have terms not materially less favourable to Noteholders than the terms of the Dated Subordinated Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing, and provided that a certification to such effect of two Directors of the Issuer shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that such securities

(1) contain terms such that they comply with the then Regulatory Capital Requirements in relation to Tier 2 Capital;

(2) include terms which provide for the same (or, from a Noteholder's perspective, more favourable) Rate of Interest from time to time, Interest Payment Dates, (in relation to any Dated Subordinated Notes) Maturity Date and Early Redemption Amount(s) as apply from time to time to the relevant Series of Dated Subordinated Notes immediately prior to such substitution or variation;

(3) shall preserve any existing rights under the Conditions to any accrued interest, principal and/or premium which has not been satisfied;

(4) do not contain terms providing for the mandatory or voluntary deferral of payments of principal and/or interest;

(5) do not contain terms providing for loss absorption through principal write-down, write-off or conversion to ordinary shares; and

(6) are otherwise not materially less favourable to Noteholders;

(iii) are listed on (i) the regulated market of the London Stock Exchange or (ii) such other EEA regulated market as selected by the Issuer and approved in writing by the Trustee; and

(iv) where the Dated Subordinated Notes which have been substituted or varied had a published rating from a Rating Agency immediately prior to their substitution or variation each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Dated Subordinated Notes.

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

8 Taxation

All payments of principal and/or interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of 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 of principal and/or interest as will result (after such withholding or deduction) in receipt by the Noteholders and the Couponholders of the sums which would have been receivable (in the absence of such withholding or deduction) from it in respect of their Notes and/or Coupons, as the case may be; except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) presented for payment by or on behalf of any holder who is liable to such tax, duty, assessment or governmental charge in respect of such Note or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or

(b) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the 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 Note or Coupon, or which holds the Note or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary

with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or

(d) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days.

Notwithstanding any other provision of the Terms and Conditions of the Notes or the Trust Deed, any amounts to be paid on the Notes by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

As used herein:

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

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

9 Prescription

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

The prescription period in respect of Talons shall be:

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

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

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

10 Events of Default and Enforcement

(a) If the Issuer shall not make payment of any principal or any interest in respect of the Notes for a period of 14 days or more after the due date for the same, the Trustee may:

(i) in respect of Senior Notes, at any time at its discretion and without notice institute such proceedings and/or take such other action as it may think fit against or in relation to the Issuer to enforce its obligations under the Senior Notes; or

(ii) in respect of Dated Subordinated Notes, institute proceedings for the winding-up of the Issuer, but may (without prejudice to Condition 3(*c*)) take no other action in respect of such default,

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

(b) In respect of Senior Notes, if otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for winding-up the Issuer, the Trustee may at its discretion give notice to the Issuer that the Senior Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount, together with accrued interest (calculated as provided in the Trust Deed).

(c) The Trustee shall not be bound to institute proceedings and/or take the action referred to in Condition 10(*a*), 10(*b*), 10(d) or 3(*c*) to enforce the obligations of the Issuer in respect of the Notes and Coupons or to take any other actions under the Trust Deed unless (i) it shall have been so requested by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding (as defined in the Trust Deed) and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(d) No Noteholder or Couponholder shall be entitled to institute such proceedings and/or take such other action as is referred to in Condition (a)(i) above or institute proceedings for the winding-up of the Issuer as is referred to in Condition (a)(ii) above, or to prove in such winding-up, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so, or, being able to prove in such winding-up, fails to do so, in either case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or take such other action or institute proceedings for the winding-up of the Issuer and/or prove in such winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do. In the case of Dated Subordinated Notes, no remedy against the Issuer, other than the institution of proceedings for

the winding-up of the Issuer or, as the case may be, proving in the winding-up of the Issuer in the manner and by the persons aforesaid, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its obligations under the Notes or the Trust Deed (other than for recovery of the Trustee's remuneration or expenses).

The Issuer has undertaken in the Trust Deed to pay UK stamp and other duties (if any) on or in connection with the execution of the Trust Deed and UK, Belgian (in the case of Notes other than CMU Notes), Luxembourg (in the case of Notes other than CMU Notes) and Hong Kong (in the case of CMU Notes only) stamp and other duties or taxes (if any) payable on or in connection with the constitution and original issue of any Global Note or any Global Certificate or the Definitive Notes or the Coupons (provided such stamp and other duties or taxes result from laws applicable on or prior to the date 40 days after the Issue Date specified in the Final Terms of such Notes and, in the case of exchange of Global Notes for Definitive Notes, such tax results from laws applicable on or prior to the date of such exchange) and stamp and other duties or taxes (if any) payable in the United Kingdom (but not elsewhere) solely by virtue of and in connection with any permissible proceedings under the Trust Deed or the Notes to enforce the provisions of the Notes, Certificates, Coupons, Talons or the Trust Deed, save that the Issuer shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Notes in temporary global, permanent global or definitive form or the Coupons or Talons (in each case other than as aforesaid) are the liability of the holders thereof.

(e) If payment to any Noteholder of any amount due in respect of the Notes (other than interest) is improperly withheld or refused (any withholding or refusal effected in reliance upon the proviso to Condition 10(*a*) where the relevant law, regulation or order proves subsequently not to be valid or applicable shall be treated, for the purpose of ascertaining entitlement to accrued interest but not for any other purpose, as if it had been at all times an improper withholding or refusal), interest shall accrue until, but excluding, the date on which notice is given in accordance with Condition 15 that the full amount in the Specified Currency payable in respect of such Notes is available for payment or the date of payment, whichever first occurs and shall be calculated by applying the Rate of Interest determined in accordance with these Conditions on the first day of the then current Interest Period (and each relevant Interest Period (if any) thereafter) to such amount withheld or refused, multiplying the sum by the relevant Day Count Fraction for such Interest Period and rounding the resultant figure to the nearest unit (as such term is defined in Condition 4*(f)*(iii)).

(f) If, in reliance upon the proviso to Condition 10(*a*), payment of any amount (each a "**withheld amount**") in respect of the whole or any part of the principal and/or any interest due in respect of the Notes, or any of them, is not paid or provided by the Issuer to the Trustee or to the account of or with the Issuing and Paying Agent, or is withheld or refused by any of the Paying Agents, the Registrar or the Transfer Agents, in each case other than improperly within the meaning of Condition 10(*e*), or which is paid or provided after the due date for payment thereof, such withheld amount shall, where not already an interest bearing deposit, if lawful, promptly be so placed, all as more particularly described in the Trust Deed. If subsequently it shall be or become lawful to make payment of such withheld amount in the Specified Currency, notice shall be given in accordance with Condition 15, specifying the date (which shall be no later than seven days after the earliest date thereafter upon

which such interest bearing deposit falls or may (without penalty) be called due for repayment) on and after which payment in full of such withheld amount (or that part thereof which it is lawful to pay) will be made. In such event (but subject in all cases to any applicable fiscal or other law or regulation or the order of any court of competent jurisdiction), the withheld amount or the relevant part thereof, together with interest accrued thereon from, and including, the date the same was placed on deposit to, but excluding, the date upon which such interest bearing deposit was repaid, shall be paid to (or released by) the Issuing and Paying Agent for payment to the relevant holders of Notes and/or Coupons, as the case may be (or, if the Issuing and Paying Agent advises the Issuer of its inability to effect such payment, shall be paid to (or released by) such other Paying Agent, Registrar or Transfer Agent (as the case may be) as there then may be or, if none, to the Trustee, in any such case for payment as aforesaid). For the purposes of Condition 10(*a*), the date specified in the said notice shall become the due date for payment in respect of such withheld amount or the relevant part thereof. The obligations under this Condition 10(*f*) shall be in lieu of any other remedy otherwise available under these Conditions, the Trust Deed or otherwise in respect of such withheld amount or the relevant part thereof.

(g) Any interest payable as provided in Condition 10(*f*) above shall be paid net of any taxes applicable thereto and Condition 8 shall not apply in respect of the payment of any such interest.

11 Indemnification of the Trustee

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

12 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

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

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

(b) Modification of the Trust Deed

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

the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable in accordance with Condition 15.

(c) Substitution – Senior Notes

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

(d) Substitution – Dated Subordinated Notes

Without prejudice to the provisions of Condition 7, the Trustee shall agree, if requested by the Issuer and subject to such amendment of the Trust Deed and such other conditions as the Trustee may reasonably require, but without the consent of the Noteholders or the Couponholders, to the substitution, subject to the Notes and the Coupons being irrevocably guaranteed by the Issuer on a subordinated basis equivalent to that mentioned in Condition 3*(c)*, of a subsidiary of the Issuer or a holding company of the Issuer or another subsidiary of any such holding company in place of the Issuer as principal debtor under the Trust Deed, the Notes and the Coupons and as a party to the Agency Agreement and so that the claims of the Noteholders and the Couponholders may, in the case of the substitution of a holding company of the Issuer or a banking company (as defined in the Trust Deed) in the place of the Issuer, also be subordinated to the rights of depositors and other unsubordinated creditors of that holding company or banking company but not further or otherwise.

(e) Change of Governing Law

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

(f) Entitlement of the Trustee

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

(g) Permission of the Relevant Regulator

Any substitution, variation or modification of the Dated Subordinated Notes or (to the extent such substitution, variation or modification relates to Dated Subordinated Notes which are outstanding) the Trust Deed in accordance with this Condition 12 is subject to the Issuer obtaining the permission

therefor from the Relevant Regulator, provided that at the relevant time such permission is required to be given.

13 Replacement of Notes, Certificates, Coupons and Talons

(a) If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other place of which notice shall be given in accordance with Condition 15 in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia,* that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Note, Certificate, Coupon or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Issuer may require the person requesting delivery of a replacement Note, Certificate, Coupon or Talon to pay, prior to delivery of such replacement Note, Certificate, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Note shall be issued having attached thereto any Coupon or Talon, claims in respect of which shall have become void pursuant to Condition 9.

(b) Where:

(i) a Talon (the "**relevant Talon**") has become prescribed in accordance with Condition 9; and

(ii) the Note to which the relevant Talon pertains has not become void through prescription; and

(iii) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a "**part Coupon sheet**"), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Note, has been issued; and

(iv) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (iii) above or, in the reasonable opinion of the Issuer, there is no reasonable likelihood that any such replacement has been issued,

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

(A) in the case of a Note that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 9 or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Note, and (y) without any Talon or Talons, as the case may be; or

(B) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 9 and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the

original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

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

14 Further Issues

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

15 Notices

Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the Financial Times). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom, approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

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

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

16 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England, save that the provisions of Condition 3 (and related provisions of the Trust Deed) relating to the subordination and set-off of Notes issued by the Company are governed by, and shall be construed in accordance with, the laws of Scotland.

(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 Notes (other than Condition 3 (and related provisions of the Trust Deed) relating to the subordination and set-off of Notes issued by the Company ("**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

Notes ("**Proceedings**") may be brought in such courts. The Company 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. Service of process in any Proceedings in England may be effected by delivery to the Company's place of business in England at Faryners House, 25 Monument Street, London EC3R 8BQ or such other address as may be notified to the Trustee.

17 Third Party Rights

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

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

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

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

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

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

2 Relationship of Accountholders with Clearing Systems

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

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

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

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

3 Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined in paragraph 3.6 below):

(i) if the relevant Final Terms indicates that such temporary Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme — Selling Restrictions*"), in whole, but not in part, for the Definitive Notes, as defined and described below*; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

The CMU Service may require that any such exchange for a permanent Global Note is made in whole and not in part, and in such event no such exchange will be effected until all relevant account holders (as set

* In relation to any issue of Notes which are expressed to be Temporary Global Notes exchangeable for Definitive Notes in accordance with this paragraph 3.1, such Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the minimum Specified Denomination provided herein and multiples thereof.

out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

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

3.2 **Permanent Global Notes**

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes or, in the case of paragraph 3.2(iii) below, Registered Notes:

(i) by the relevant Issuer giving notice to the Noteholders, the Trustee and the Issuing and Paying Agent of its intention to effect such exchange (unless principal in respect of any Notes has not been paid when due);[†]

(ii) if the relevant Final Terms provides that the permanent Global Note is exchangeable at the request of the holder, by the holder (acting on the instructions of the person(s) with beneficial interest(s) in such permanent Global Note) giving notice to the Issuing and Paying Agent of its election for such exchange;[‡]

(iii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder (acting on the instructions of the person(s) with beneficial interest(s) in such permanent Global Note) giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such permanent Global Note for Registered Notes; and

(iv) otherwise, (i) upon the happening of any of the events defined in the Trust Deed as "Events of Default"; or (ii) if Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available.

3.3 **Global Certificates**

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

(i) upon the happening of any of the events defined in the Trust Deed as "Events of Default"; or

(ii) if such Notes are held on behalf of Euroclear or Clearstream, Luxembourg or the CMU Service or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available; or

(iii) with the consent of the relevant Issuer,

[†] Not applicable to Notes with a minimum Specified Denomination plus a higher integral multiple of a smaller amount.

[‡] Not applicable to Notes with a minimum Specified Denomination plus a higher integral multiple of a smaller amount.

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

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes if principal in respect of any Notes is not paid when due.

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

3.5 Delivery of Notes

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

3.6 Exchange Date

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

4 Amendment to Conditions

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

4.1 **Payments**

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

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

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

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

Payments of interest (if any) in respect of Notes represented by a Global Note or a Global Certificate shall be made at the rates, on the dates for payment and in accordance with the methods of calculation provided for in the Conditions relating to such Notes.

4.2 **Prescription**

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

4.3 **Cancellation**

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

4.4 **Purchase**

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

4.5 **Issuer's Option**

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

4.6 **Noteholders' Options**

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

4.7 **NGN Nominal Amount**

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

4.8 **Trustee's Powers**

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

4.9 **Notices**

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

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

5 CMU

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

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

6 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

(i) approval of a resolution proposed by the relevant 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 holders of not less than 90 per cent. in nominal amount of the Notes (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum requirements were satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

(ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the relevant Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the relevant Issuer and/or the Trustee, as the case may be, by Accountholders in the clearing system with entitlements to such Global Note or 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 relevant 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 Noteholders and Couponholders, 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 Notes. 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 Notes is clearly identified together with the amount of such holding. The relevant Issuer shall not 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.

USE OF PROCEEDS

The net proceeds of each issue of Notes will be used for the general business purposes of Lloyds Banking Group and Lloyds Bank Group.

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

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

Registered Notes

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

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

Transfers of Registered Notes

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

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

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

Individual Certificates

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

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

CREST Depository Interests

Following their delivery into a clearing system, interests in Notes denominated in pounds sterling, euro and US dollars may be delivered, held and settled in CREST by means of the creation of CDIs representing the interests in the relevant Underlying Notes. The CDIs will be issued by CREST Depository Limited (the "**CREST Depository**") to CDI Holders and will be governed by English law.

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

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

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

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

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

Prospective subscribers for Notes represented by CDIs are referred to Chapter 8 of the CREST Manual which contains the form of the CREST Deed Poll to be entered into by the CREST Depository. The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the relevant Issuer including the CREST Deed Poll (in the form contained in Chapter 3 of the CREST International Manual (which forms part of the CREST Manual)) executed by the CREST Depository. These rights may be different from those of holders of Notes which are not represented by CDIs.

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

(i) CDI Holders will not be the legal owners of the Underlying Notes. The CDIs are separate legal instruments from the Underlying Notes to which they relate and represent an indirect interest in such Underlying Notes.

(ii) The Underlying Notes themselves (as distinct from the CDIs representing indirect interests in such Underlying Notes) will be held in an account with a custodian. The custodian will hold the Underlying Notes through a clearing system. Rights in the Underlying Notes will be held

through custodial and depositary links through the appropriate clearing systems. The legal title to the Underlying Notes or to interests in the Underlying Notes will depend on the rules of the clearing system in or through which the Underlying Notes are held.

(iii) Rights under the Underlying Notes cannot be enforced by CDI Holders except indirectly through the intermediary depositaries and custodians described above. The enforcement of rights under the Underlying Notes will therefore be subject to the local law of the relevant intermediary. The rights of CDI Holders to the Underlying Notes are represented by the entitlements against the CREST Depository which (through the CREST Nominee) holds interests in the Underlying Notes. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Notes in the event of any insolvency or liquidation of the relevant intermediary, in particular where the Underlying Notes held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.

(iv) The CDIs issued to CDI Holders will be constituted and issued pursuant to the CREST Deed Poll. CDI Holders will be bound by all provisions of the CREST Deed Poll and by all provisions of or prescribed pursuant to, the CREST International Manual dated 14 April 2008 as amended, modified, varied or supplemented from time to time (the "**CREST Manual**") and the CREST Rules (the "**CREST Rules**") (contained in the CREST Manual) applicable to the CREST International Settlement Links Service and CDI Holders must comply in full with all obligations imposed on them by such provisions.

(v) Potential investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the issuer of the CDIs, the CREST Depository.

(vi) CDI Holders may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the money invested by them. The attention of potential investors is drawn to the terms of the CREST Deed Poll, the CREST Manual and the CREST Rules, copies of which are available from CREST at 33 Cannon Street, London EC4M 5SB or by calling +44 (0) 207 849 0000 or from the CREST website at https://www.euroclear.com/en.html.

(vii) Potential investors should note CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Notes through the CREST International Settlement Links Service.

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

(ix) Potential investors should note that Notes issued in temporary global form exchangeable for a Permanent Global Security will not be eligible for CREST settlement as CDIs. As such, investors investing in the Underlying Notes through CDIs will only receive the CDIs after such

Temporary Global Security is exchanged for a Permanent Global Security, which could take up to 40 days after the issue of the Notes.

(x) *Potential investors should be aware that the creation of CDIs relating to the Notes could, if not completed correctly, result in a taxable charge for stamp duty reserve tax payable by such investors. A person creating a CDI will be required to provide confirmation to Euroclear that the Notes are exempt from the requirements to pay stamp duty reserve tax.*

CMU

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

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

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

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

LLOYDS BANKING GROUP AND LLOYDS BANK

Overview

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

Lloyds Banking Group is a leading provider of financial services to individual and business customers in the UK. The Company and the Bank both operate under the Companies Act 2006.

History and Development of Lloyds Banking Group

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

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, TSB Bank plc ("**TSB Bank**"), its consolidated subsidiaries and subsidiary undertakings from time to time (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 ("**LTSB**"), 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, 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, LTSB 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 LTSB 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 ("**Halifax**") and Bank of Scotland plc ("**BoS**"). 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 Investment Group Limited ("**CMIG**") in 1996. In 1997 the Halifax converted to plc status and floated on the London stock market. BoS 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 LTSB and HBOS announced that they had reached agreement on the terms of a recommended acquisition by LTSB of HBOS. The shareholders of LTSB approved the acquisition at LTSB's general meeting on 19 November 2008. On 16 January 2009, the acquisition was completed and LTSB changed its name to Lloyds Banking Group plc.

Pursuant to two placing and open offers which were completed by the Company in January and June 2009 and the rights issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Company's issued ordinary share capital. As announced, at 4 December 2015 UKFI held approximately 6.6 billion shares in the Group representing a stake of approximately 9.2 per cent., following a sale of 4,282

million shares on 20 September 2013, a further sale of 5,555 million shares on 31 March 2014, the effects of a trading plan with Morgan Stanley & Co. International plc ("**Morgan Stanley**") that was announced on 17 December 2014 and extended on both 1 June 2015 and 4 December 2015, and the effects of issues of ordinary shares. The trading plan provides Morgan Stanley with full discretion to effect a measured and orderly sell down of shares in the Group on behalf of the UK Government above a share price of 73.6 pence. The trading plan will terminate no later than 30 June 2016. The plan may be stopped earlier than 30 June 2016, for example to ensure that HM Treasury retains sufficient shares for the proposed retail offer, which was originally expected to be launched in Spring 2016 but has been delayed following recent market volatility. The UK Government has instructed Morgan Stanley that up to but no more than 15 per cent. of the aggregate total trading volume in the Group is to be sold over the duration of the trading plan. Although the UK Government may have sold shares since its announcement on 4 December 2015 their holding remains above 9 per cent. as at 13 May 2016.

Pursuant to its decision approving state aid to the Group, the European Commission required the Group to dispose of a retail banking business meeting minimum requirements for the number of branches, share of the UK personal current accounts market and proportion of the Group's mortgage assets. Following disposals in 2014, the Group retained an interest of approximately 50 per cent. in TSB as at 31 December 2014. The Group sold its remaining interest in TSB to Banco de Sabadell ("**Sabadell**") in 2015, with the acquisition becoming unconditional in all respects on 30 June 2015 following the receipt of all relevant regulatory clearances.

Ratings of the Bank

As at the date of this Prospectus: (i) long-term senior obligations of the Bank are rated "A" by S&P, "A1" by Moody's and "A+" by Fitch; and (ii) short-term obligations of the Bank are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the EU and is 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.

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

S&P is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "A-1" and Dated Subordinated Notes issued by the Bank under the Programme "BBB".

Fitch is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A+"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "F1" and Dated Subordinated Notes issued by the Bank under the Programme "A-".

Moody's is expected to rate: Senior Notes issued by the Bank under the Programme with a maturity of one year or more "A1"; Senior Notes issued by the Bank under the Programme with a maturity of less than one year "P-1" and Dated Subordinated Notes issued by the Bank under the Programme "Baa2".

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody's, each of which is established in the EU and is 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.

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

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

For detail on credit ratings risks see "*Risk Factors — Financial soundness related risks". In particular, see "Risk 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*".

Ratings of the Company

As at the date of this Prospectus: (i) long-term senior obligations of the Company are rated "BBB+" by S&P, "Baa1" by Moody's and "A+" by Fitch; and (ii) short-term obligations of the Company are rated "A-2" by S&P, "P-2" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the EU and is 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.

Expected ratings in relation to Notes issued by the Company under the Programme

S&P is expected to rate: Senior Notes issued by the Company under the Programme with a maturity of one year or more "BBB+"; Senior Notes issued by the Company under the Programme with a maturity of less than one year "A-2" and Dated Subordinated Notes issued by the Company under the Programme "BBB-".

Fitch is expected to rate: Senior Notes issued by the Company under the Programme with a maturity of one year or more "A+"; Senior Notes issued by the Company under the Programme with a maturity of less than one year "F1" and Dated Subordinated Notes issued by the Company under the Programme "A+".

Moody's is expected to rate: Senior Notes issued by the Company under the Programme with a maturity of one year or more "Baa1"; Senior Notes issued by the Company under the Programme with a maturity of less than one year "P-2" and Dated Subordinated Notes issued by the Company under the Programme "Baa2".

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody's, each of which is established in the EU and is 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.

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

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

For detail on credit ratings risks see "*Risk Factors — Financial soundness related risks".* In particular, *see "Risk 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 provider of financial services to individual and business customers in the UK. The Group's main business activities are retail and commercial banking, and long-term savings, protection and investment. Services are provided through a number of well recognised brands including Lloyds Bank,

Halifax, BoS and Scottish Widows and through a range of distribution channels, including the largest branch network in the UK and a comprehensive digital proposition.

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 individual and business customers across the UK and creating value by investing in areas that make a real difference to these customers.

Following the successful delivery of the Group's 2011 strategy that underpinned the Group's low-cost, low risk, customer focused, UK retail and commercial banking business model, the Group outlined the next phase of its strategy in October 2014. The Group's strategy is focused upon delivering value and high quality experiences for customers alongside superior and sustainable financial performance within a prudent risk and conduct framework. This will be achieved through three strategic priorities which will be consistently applied across all divisions:

Creating the best customer experience

The Group's ambition is to create the best customer experience through its multi-brand, multi-channel approach, combining comprehensive online and mobile capabilities with face to face services. This involves transforming the Group's digital presence while sustaining extensive customer reach through a branch network focused on delivering high quality service and the right outcomes for customers.

Becoming simpler and more efficient

The Group is focused on creating operational capability which is simpler and more efficient than today and will become more responsive to changing customer expectations while maintaining its cost leadership amongst UK high street banks. This includes a second phase of the simplification programme to achieve run-rate savings of £1 billion per annum by the end of 2017. In order to achieve these savings, the Group will invest around £1.6 billion over three years on initiatives to simplify processes and increase automation.

Delivering sustainable growth

As the UK economy continues to recover, the Group will seek Group-wide growth opportunities whilst maintaining its prudent risk appetite. This will be achieved by maintaining market leadership in its retail business lines while also focusing on areas where the Group is currently under represented.

Summary

The Group is creating a simpler, more agile, efficient and responsive customer focused organisation which operates sustainably and responsibly and helps Britain prosper. The achievement of the Group's strategy could not happen without the support of colleagues. The Group is therefore committed to "building the best team" to create a high performance organisation. The Group believes that the successful execution of the next phase of its strategy will enable delivery of superior and sustainable returns for shareholders.

Business and Activities of Lloyds Banking Group

At 31 December 2015 the Group's activities were organised into four financial reporting segments: Retail; Commercial Banking; Consumer Finance and Insurance.

Retail

Retail offers a broad range of financial service products, including current accounts, savings, personal loans and mortgages, to UK personal customers, including Wealth and small business customers. It is also a distributor of insurance, protection and credit cards, and a range of long-term savings and investment products. Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver real value to customers, and by providing them with greater choice and flexibility. It will maintain

its multi-brand and multi-channel strategy, and continue to simplify the business and provide more transparent products, helping to improve service levels and reduce conduct risks.

Commercial Banking

Commercial Banking has been supporting British business for 250 years. It has a client-led, low risk, capital efficient strategy, helping UK-based clients and international clients with a link to the UK. Through its four client facing divisions – SME, Mid Markets, Global Corporates and Financial Institutions – it provides clients with a range of products and services such as lending, transactional banking, working capital management, risk management, debt capital markets services, as well as access to private equity through Lloyds Development Capital.

Consumer Finance

Consumer Finance provides a range of products including motor finance, credit cards, and European mortgages and deposit taking, aiming to deliver sustainable growth within risk appetite. Motor Finance seeks to achieve this through improving customer service by building digital capability and continuing to create innovative propositions. Credit Cards aims to attract customers through better use of Group customer relationships and insight, underpinned by improvements to customer experience.

Insurance

Insurance provides a broad range of long term savings, retirement and protection products to retail and corporate customers, either direct or through intermediary networks or through the Group's banking branches.

Life, Pensions and Investments

The Life, Pensions and Investments business provides long-term savings, retirement solutions and protection products primarily distributed through intermediaries and direct channels of Scottish Widows.

General Insurance

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

Material Contracts

The Company and its subsidiaries are party to various contracts in the ordinary course of business.

For information relating to the Company's relationship with the UK Government see "*Major Shareholders and Related* Party *Transactions — Information about the Lloyds Banking Group's relationship with the UK Government"*. For information relating to the Group's relationship with the TSB Group see *"Major Shareholders and Related Party Transactions — Information about the Lloyds Banking Group's relationship with the TSB Group*".

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, commercial and corporate banking, general insurance, life insurance, 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 along with emerging forms of lending in the commercial banking markets and with bancassurance, life assurance and general insurance companies in the UK insurance market.

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 non-traditional competitors, 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

Approach of the Financial Conduct Authority ("FCA")

As per FSMA (as amended by 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 FSA Handbook, including regulations and guidance relating to capital adequacy and liquidity among several other things. 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). 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.

*UK Financial Ombudsman Service ("**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 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 voluntary Lending Code introduced on 1 November 2009 (as last amended in October 2014), which relates to certain lending (current account overdrafts, loans and credit cards) to consumers, micro-enterprises and charities with an income of less than £1 million.

UK Competition and Markets Authority

Since 1 April 2014 the competition functions previously exercised by the Office of Fair Trading 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.

The Payments System Regulator

The Payment System Regulator ("**PSR**") is a new independent economic regulator for the £75 trillion payment systems industry, which was launched in April 2015. Payment systems form a vital part of the UK's financial system – they underpin the services that enable funds to be transferred between people and institutions. The purpose of PSR is to make payment systems work well for those that use them. The PSR is a subsidiary of the FCA, but has its own statutory objectives, Managing Director and Board. In summary their objectives are: to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them; to promote effective competition in the markets for payment systems and services – between operators, PSPs and infrastructure providers; and to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.

Competition Regulation

The CMA commenced a Phase 2 competition investigation into personal and SME banking in November 2014. The CMA's provisional findings were published in October 2015 in which the CMA

provisionally concluded that there are features of the market that prevented, restricted or distorted competition and they have proposed a list of possible remedies. The statutory deadline for the CMA's final report has been extended to 12 August 2016.

The FCA obtained concurrent competition powers on 1 April 2015 in relation to the provision of financial services in the UK, in addition to its already existing competition objective. The FCA has commenced a programme of work to look across financial services markets and assess whether or not competition is working effectively in the best interests of consumers.

The PSR became operational in April 2015 with concurrent competition powers in respect of UK payment systems, in addition to a statutory objective to promote effective competition. The PSR has commenced market reviews into the provision of indirect access and into the ownership and competitiveness of payments infrastructure. The PSR is also the main competent authority for monitoring and enforcing the European Regulation on interchange fees in the UK.

In addition, the PRA also has a secondary objective under the Banking Reform Act to, so far as reasonably possible, act in a way which facilitates effective competition.

The UK Government has a continuing interest in competition. In November 2015, the UK Government published a document entitled "*A better deal: boosting competition to bring down bills for families and firms*". This document focuses on the competition aspects of the UK Government's productivity plan and aims to promote competition in various sectors, including financial services.

The new regulatory regime may lead to greater UK Government and regulatory scrutiny or intervention in the future, ranging from enforced product and service developments and payment system changes to significant structural changes. This could have a significant effect on the Group's operations, financial condition or the business of the Group.

EU Regulation

The Liikanen Report 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 responsible for producing the Liikanen Report 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 proposed regulation included a derogation from the separate requirements for banks in EU member states which had implemented equivalent legislation before 29 January 2014 (including the UK), however the risk

remains that this derogation may be removed before final agreement is reached. The form of the proposed EU regulation has been subject to much debate within the European institutions, with uncertainty surrounding both the outcome and timeline for conclusion. The EU Commission and European Parliament are yet to come to an agreement on how to implement structural reform. The main disagreements concern the need for "automatic" separation of trading activities and the level of discretion given to national competent authorities.

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.

CRD IV implements the Basel III agreement in the EU, and 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 also makes 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 by the New York State Department of Financial Services ("**NYDFS**") and subject to regulation and examination by the NYDFS and the Federal Reserve Bank of New York ("**FRBNY**"). BoS maintains a branch in New York (also licensed by the NYDFS and subject to regulation and examination by the NYDFS and the FRBNY) and maintains representative offices in Chicago and Houston, licensed respectively by the States of Illinois and Texas and subject to regulation and examination by the banking supervisors of those States as well as the Federal Reserve Banks in whose districts those offices are located.

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 BoS 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 U.S. subjects the Company and its subsidiaries doing business or conducting activities in the U.S. to oversight by the Board of Governors of the Federal Reserve System ("**Federal Reserve Board**").

Each of the Company, Lloyds Bank, HBOS and BoS 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 each has elected, with the permission of the Federal Reserve Board, 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 Company, Lloyds Bank, HBOS and BoS 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 SEC and 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, Sudan (and Cuba which was removed from the U.S. State Sponsors of Terrorism List on 29 May 2015). The Group continues to reduce its outstanding exposures to such states which have arisen through historical business activity. In accordance with this, the Group intends to engage only in new business in such jurisdictions only in very limited circumstances where the Group is satisfied concerning legal, compliance and reputational issues. At 31 December 2015, the Group does not believe that 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 2015, 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. U.S. regulators have implemented many provisions of the Dodd-Frank Act through detailed rulemaking. Although the majority of required rules and regulations have now been finalised, there remain many still in proposed form or yet to be proposed, the substance and impact of which may not fully be known until the final rules are published.

Under the Dodd-Frank Act, entities that are swap dealers and major swap participants must register with the U.S. Commodity Futures Trading Commission ("**CFTC**"), and entities that are security-based swap dealers or major security based swap participants will be required to register with the SEC. The CFTC has promulgated its registration rules for swap dealers and major swap participants. The SEC finalised its registration rules for security-based swap dealers and major security-based swap participants; however, the registration requirement will not be effective until certain other regulations applicable to security-based swap dealers are adopted. Lloyds Bank provisionally registered as a swap dealer in 2013 and as such, is subject to regulation and supervision by 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 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. In December 2014, the swap "push out" provisions of the Dodd-Frank Act were amended such that fewer swap activities need to be pushed out of covered depository institutions.

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 SEC has proposed implementing regulations which have not yet been finalised. 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 United States Securities Act of 1933, as amended (the "**Securities Act**"), the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

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 Company, Lloyds Bank, HBOS and BoS, are subject to the final rules which 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 impose significant compliance and reporting obligations on banking entities. Banking entities had until 21 July 2015 to bring their activities and investments into conformity with the Volcker Rule, however, on 18 December 2014, the Federal Reserve issued an order extending the Volcker Rule's conformance period until 21 July 2016 for investments in and relationships with certain covered funds and certain foreign funds that were in place on or prior to 31 December 2013.

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 $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 foreign banking organisations with $50 billion or more in total global consolidated assets, such as the Group, will be subject to liquidity home country capital certification and, in certain circumstances, asset maintenance requirements. These foreign banking organisations must also maintain a U.S. Risk Committee as of 1 July 2016. However, final rules for single counterparty credit limits and for early remediation have yet to be finalised.

The Dodd-Frank Act and related rules and regulations will 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 reviews and investigations both in the UK and overseas. Set out below is a summary of the more significant matters.

Interchange fees

With respect to multi-lateral interchange fees ("**MIFs**"), the Group is not directly involved in the on-going investigations and litigation (as described below) which involve card schemes such as Visa and MasterCard. However, the Group is a member of Visa and MasterCard and other card schemes.

- The European Commission continues to pursue certain competition investigations into MasterCard and Visa probing, amongst other things, MIFs paid in respect of cards issued outside the EEA; and
- Litigation continues in the English courts against both Visa and MasterCard. This litigation has been brought by several retailers who are seeking damages for allegedly "overpaid" MIFs. From publicly available information, it is understood these damages claims are running to different timescales with respect to the litigation process, and their outcome remains uncertain. It is also possible that new claims may be issued.

On 2 November 2015, Visa Inc announced its proposed acquisition of Visa Europe, which remains subject to completion. As set out in the announcement by the Group on 2 November 2015, the Group's share of the sale proceeds will comprise upfront consideration of cash (the amount of which remains subject to adjustment prior to completion) and preferred stock. The preferred stock will be convertible into Class A Common Stock of Visa Inc or its equivalent upon occurrence of certain events. As part of this transaction, the Group and certain other UK banks also entered into a Loss Sharing Agreement ("**LSA**") with Visa Inc, which clarifies how liabilities will be allocated between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. Visa Inc may only have recourse to the LSA once €1 billion of damages have been applied to the value of the UK preferred stock received by Visa UK members (including the Group) as part of the consideration to the transaction. The value of the preferred stock will be reduced (by making a downward adjustment to the conversion rate) in an amount equal to any covered losses. The maximum amount of liability to which the Group may be subject under the LSA is capped at the cash consideration to be received by the Group. Visa Inc may also have recourse to a general indemnity, currently in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

The ultimate impact on the Group of the above investigations and the litigation against Visa and MasterCard cannot be known before the conclusion of these matters.

Payment Protection Insurance

The Group increased the provision for PPI costs by a further £4,000 million in 2015, bringing the total amount provided to £16,025 million.

This included an additional £2,100 million in the fourth quarter of 2015, largely to reflect the impact of the Group's interpretation of the proposals contained within the FCA's consultation paper regarding a potential time bar and the Plevin case. As at 31 December 2015, £3,458 million or 22 per cent. of the total provision, remained unutilised with £2,950 million relating to reactive complaints and associated administration costs.

The volume of reactive PPI complaints has continued to fall, with an 8 per cent. reduction in 2015 compared with 2014, to approximately 8,000 complaints per week. Whilst direct customer complaint levels

fell 30 per cent. year-on-year, those from Claims Management Companies ("**CMCs**") have remained broadly stable and as a result, CMCs now account for over 70 per cent. of complaints.

On 26 November 2015, the FCA published a consultation paper ("CP15/39: *Rules and guidance on payment protection insurance complaints*") proposing (i) the introduction of a deadline by which consumers would need to make their PPI complaints including an FCA led communications campaign, and (ii) rules and guidance about how firms should handle PPI complaints in light of the Supreme Court's decision in Plevin.

Based on recent trends, and in light of the proposals from the FCA, the Group now expects a higher level of complaints than previously assumed including those related to Plevin. As a result the Group has increased the total expected reactive complaint volumes to 4.7 million with approximately 1.3 million still expected to be received. This is equivalent to approximately 10,000 net complaints per week on average through to the proposed time bar of mid-2018.

Monthly complaints trends could vary significantly throughout this period, given they are likely to be impacted by a number of factors including the potential impact of the FCA's proposed communication campaign as well as changes in the regulation of CMCs.

The provision includes an estimate to cover redress that would be payable under the FCA's proposed new rules and guidance in light of Plevin.

The Group continues to progress the re-review of previously handled cases and expects this to be substantially complete by the end of the first quarter of 2016. During the year the scope has been extended by 0.5 million to 1.7 million cases relating largely to previously redressed cases, in addition to which, higher overturn rates and average redress have been experienced. At the end of January 2016, 77 per cent. of cases had been reviewed and 77 per cent. of all cash payments made.

The Group has completed its PBR where it has been identified that there was a risk of potential mis-sale for certain customers, albeit monitoring continues. No further change has been made to the amount provided.

The Group expects to maintain the PPI operation on its current scale for longer than previously anticipated given the update to volume related assumptions and the re-review of previously handled cases continuing into the first quarter of 2016. The estimate for administrative expenses, which comprise complaint handling costs and costs arising from cases subsequently referred to the FOS, is included in the provision increase outlined above.

Sensitivities

The Group estimates that it has sold approximately 16 million policies since 2000. These include policies that were not mis-sold. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for almost 49 per cent. of the policies sold since 2000, covering both customer-initiated complaints and actual and PBR mailings undertaken by the Group.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. However a number of risks and uncertainties remain in particular with respect to future volumes. The cost could differ materially from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. There is significant uncertainty around the impact of the proposed FCA media campaign and CMC and customer activity in the lead up to the proposed time bar.

On 26 November 2015 the FCA issued a consultation paper on the introduction of a deadline by which consumers would need to make their PPI complaints or else lose their right to have them assessed by firms or the Financial Ombudsman Service, and proposed rules and guidance concerning the handling of PPI complaints in light of the Supreme Court's decision in Plevin. The FOS is also considering the implications of

Plevin for PPI complaints. The implications of potential time-barring and the Plevin decision in terms of the scope of any court proceedings or regulatory action remain uncertain.

Investigation and litigation relating to interbank offered rates, and other references rates

In July 2014, the Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and U.S. federal authorities legacy issues regarding the manipulation several years ago of Group companies' submissions to the British Bankers' Association ("**BBA**") London Interbank Offered Rate ("**LIBOR**") and Sterling Repo Rate. The Group continues to cooperate with various other government and regulatory authorities, including the Serious Fraud Office, the Swiss Competition Commission, and a number of U.S. State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

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, Japanese yen and Sterling LIBOR. The lawsuits, which contain broadly similar allegations, 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, including those asserted under U.S. anti-trust laws, have been dismissed by the U.S. Federal Court for Southern District of New York (the "**District Court**"). That court's dismissal of plaintiffs' anti-trust claims has been appealed to the New York Federal Court of Appeal. The OTC and Exchange – Based plaintiffs' claims were dismissed in November 2015 for lack of personal jurisdiction against the Group.

Certain Group companies are also named as defendants in UK based claims raising LIBOR manipulation allegations in connection with interest rate hedging products.

It is currently not possible to predict the scope and ultimate outcome on the Group of the various outstanding regulatory investigations not encompassed by the settlements, any 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

The Group has received a number of claims from customers relating to policies issued by CMIG (recently renamed Scottish Widows Limited) 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 provisions totalling £520 million during the period to 31 December 2014. Recent experience has been slightly adverse to expectations and the Group has noted decisions of the FCJ in 2014 and 2015 involving German insurers in relation to a German industry-wide issue regarding notification of contractual "cooling off" periods. Accordingly, a provision increase of £25 million has been recognised giving a total provision of £545 million. The remaining unutilised provision as at 31 December 2015 is £124 million (31 December 2014: £199 million).

The validity of the claims facing the Group depends 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 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 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 2015 the Group had identified 1,735 sales of IRHPs

to customers within scope of the agreement with the FCA which have opted in and are being reviewed and, where appropriate, redressed. The Group agreed that it would provide redress to any in-scope customers where appropriate. The Group continues to review the remaining cases within the scope of the agreement with the FCA and has met all of the regulator's requirements to date.

During 2015, the Group has charged a further £40 million in respect of redress and related administration costs, increasing the total amount provided for redress and related administration costs for in-scope customers to £720 million (31 December 2014: £680 million). As at 31 December 2015, the Group has utilised £652 million (31 December 2014: £571 million), with £68 million (31 December 2014: £109 million) of the provision remaining.

FCA review of complaint handling

On 5 June 2015, the FCA announced a settlement with the Group totalling £117 million following its investigation into aspects of the Group's PPI complaint handling process during the period from March 2012 to May 2013. The FCA did not find that the Group acted deliberately. The Group has reviewed all customer complaints fully defended during the relevant period. The remediation costs of reviewing these affected cases are not materially in excess of existing provisions.

Provisions for other legal actions and 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 other governmental authorities on a range of matters. The Group also receives complaints and claims from customers in connection with its past conduct and, where significant, provisions are held against the costs expected to be incurred as a result of the conclusions reached. During 2015, the Group charged an additional £655 million (2014: £430 million), including £225 million (2014: £nil) in response to complaints concerning packaged bank accounts and £282 million (2014: £318 million) in respect of other matters within the Retail division. In addition, the Group has charged a further £148 million (2014: £112 million) in respect of a number of product rectifications primarily in Insurance and Commercial Banking.

At 31 December 2015, provisions for other legal actions and regulatory matters of £813 million (31 December 2014: £521 million) remained unutilised, principally in relation to the sale of bancassurance products and packaged bank accounts and other Retail provisions.

UK shareholder litigation

In August 2014, the Group and a number of former directors were named as defendants in a claim filed in the English High Court by a number of claimants who held shares in LTSB prior to the acquisition of HBOS, alleging breaches of fiduciary and tortious duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. It is currently not possible to determine the ultimate impact on the Group (if any), but the Group intends to defend the claim vigorously.

Financial Services Compensation Scheme

The FSCS is the UK's independent statutory compensation fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable or likely to be unable to pay claims against it. The FSCS is funded by levies on the authorised financial services industry. Each deposit-taking institution contributes towards the FSCS levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year, which runs from 1 April to 31 March.

Following the default of a number of deposit takers in 2008, the FSCS borrowed funds from HM Treasury to meet the compensation costs for customers of those firms. At 31 March 2015, the end of the latest FSCS scheme year, the principal balance outstanding on these loans was £15,797 million (31 March 2014: £16,591 million). Although the substantial majority of this loan will be repaid from funds the FSCS receives

from asset sales, surplus cash flow or other recoveries in relation to the assets of the firms that defaulted, any shortfall will be funded by deposit-taking participants of the FSCS. The amount of future levies payable by the Group depends on a number of factors including the amounts recovered by the FSCS from asset sales, the Group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of deposit-taking participants.

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 including open matters where Her Majesty's Revenue and Customs ("HMRC") adopt a different interpretation and application of tax law. 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 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. There are a number of other open matters on which the Group is in discussion with HMRC; none of these is expected to have a material impact on the financial position of the Group.

Residential mortgage repossessions

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA has indicated that it is considering whether to issue a consultation paper in relation to industry practice in this area. The Group will respond as appropriate to this and any investigations, proceedings or regulatory action that may in due course be instigated as a result of these issues.

*Enhanced Capital Notes ("**ECNs**")*

In 2015, the Group participated in the UK-wide concurrent stress testing run by the Bank of England; the ECNs in issue were not taken into account for the purposes of core capital in the PRA stress tests and the Group has determined that a Capital Disqualification Event ("**CDE**"), as defined in the conditions of the ECNs, has occurred. This determination was confirmed by a unanimous decision by the Court of Appeal on 10 December 2015 and on 29 January 2016 the Group announced the redemption of certain series of ECNs using the Regulatory Call Right. The Group also completed tender offers for the remaining series of ECNs and has subsequently redeemed all outstanding ECNs not validly tendered using the Regulatory Call Right. The offers and redemptions resulted in a net loss to the Group in Q1 2016 of £790 million, principally comprising the write-off of the embedded equity conversion feature in the ECNs and premiums paid under the terms of the tender offers.

The trustee of the ECNs was granted leave by the Supreme Court to appeal the Court of Appeal decision. The appeal was heard on 21 March 2016 but the Supreme Court has not handed down its judgment as at the date of this Prospectus. In the event that the Supreme Court were to determine that a CDE had not occurred, the Group would compensate fairly the holders of the ECNs whose securities were redeemed using the Regulatory Call Right for losses suffered as a result of early redemption.

Contingent liabilities in respect of other legal actions and regulatory matters

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory

reviews, 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 at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to 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

As at 31 December 2015, 31 December 2014 and 31 December 2013, the Company had received notification from the Solicitor for the Affairs of HM Treasury that it had a direct interest of 9.9 per cent., 24.9 per cent. and 32.7 per cent. respectively in the Company's issued ordinary share capital with rights to vote in all circumstances at general meetings. Based solely on the Schedule 13-G (*Statement of acquisition of beneficial ownership by individuals*) filed by BlackRock, Inc. with the SEC dated 9 February 2016, as at 31 December 2015, BlackRock, Inc. beneficially owned 6.8 per cent. (representing 4,847,496,882 ordinary shares) of the Company's issued ordinary share capital. Prior to 31 December 2015, BlackRock, Inc.'s ownership in the Company was not required to be disclosed under SEC rules. Based on the Form TR1 (*Notification Of Major Interest In Shares*) filed with the FCA dated 4 April 2016, as at 1 April 2016, Norges Bank beneficially owned 3.01 per cent. (representing 2,148,038,724 shares) of the Company's issued ordinary share capital. As at 13 May 2016 no other notification has been received that anyone has an interest of 3 per cent. or more in the Company's issued ordinary share capital. Further information on HM Treasury's shareholding in the Company is provided in "*Information about the Lloyds Banking Group's relationship with the UK Government and Business — History and Development of Lloyds Banking Group*".

All shareholders within a class of the Company's shares have the same voting rights.

As at 31 December 2015, the Company had 2,562,598 registered ordinary shareholders. The majority of the Company's ordinary shareholders are registered in the UK. 1,410,222,797 ordinary shares, representing 1.98 per cent. of the Company's issued share capital, were held by BNY Mellon as depositary for the ordinary share American depositary share programme through which there were 168 record holders.

Additionally, the majority of the Company's preference shareholders are registered in the UK, with a further one record holder with an address in the United States registered through the Company's preference share American depositary share programme.

Related Party Transactions

The Group, as at 31 December 2015, had related party transactions with 20 key management personnel, certain of its pension funds, collective investment schemes and joint ventures and associates and TSB and TSB Bank. See note 48 to the financial statements contained in the Company's 2015 Annual Report. In addition, until the sale of its stake in TSB in June 2015 (further detailed below), the Group was a party to related party transactions with TSB and TSB Bank. Material contracts with TSB and TSB Bank are described in the "*Information about the Lloyds Banking Group's relationship with the TSB Group*" section below and material contracts with HM Treasury are described in the "*Information about the Lloyds Banking Group's relationship with the UK Government*" section below.

Following the initial public offering in June 2014 TSB and TSB Bank became related parties of the Group. The Group has entered into a number of contracts with TSB and TSB Bank for the provision of a

range of banking operations services. In June 2015, the sale of the Group's remaining stake in TSB was completed.

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. Prior to 11 May 2015, HM Treasury held more than 20 per cent. of the Company's ordinary share capital and consequently HM Treasury remained a related party of the Company for IAS 24 purposes until that date. The Group regarded the Bank of England and entities controlled by the UK Government, including The Royal Bank of Scotland Group plc ("**RBS**"), NRAM plc and Bradford & Bingley plc, as related parties for that period of time also.

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) 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 UK Government and its various departments and agencies, as well as with other companies in which the UK Government has invested. This includes financings, lending, banking, asset management and other transactions with UK financial institutions in which the UK Government has invested. Since 2010, 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 TSB Group

On 9 June 2014, an initial public offering of ordinary shares of one pence each in the capital of TSB was made (the "**Offer**") and such ordinary shares issued were admitted to the premium listing segment of the Official List of the FCA and to trading on the main market of the London Stock Exchange plc (the "**London Stock Exchange**") for listed securities (together, "**Admission**"). At the time of the Offer, TSB had one principal subsidiary, TSB Bank, a company incorporated in Scotland which carried on a retail banking business operating in the UK. Until Admission, TSB was a wholly-owned subsidiary of Lloyds Bank which is a wholly owned subsidiary of the Company. Pursuant to the Offer, Lloyds Bank sold 192,500,000 ordinary shares in the capital of TSB, representing 38.5 per cent. of the ordinary share capital of TSB. On 26 September 2014, the Group announced that it had sold a further 57.5 million ordinary shares in TSB, representing approximately 11.5 per cent. of TSB's ordinary share capital, reducing the Group's holding in TSB to approximately 50 per cent. of TSB's ordinary share capital. On 20 March 2015, the Group announced that it had agreed to sell a 9.99 per cent. interest in TSB to Sabadell and that it had entered into an irrevocable undertaking to accept in respect of its entire remaining 40.01 per cent. shareholding in TSB the recommended cash offer for TSB by Sabadell pursuant to which Sabadell would acquire the entire issued and to be issued share capital of TSB. On 30 June 2015, the Group announced the completion of the sale of its remaining 40.01 per cent. stake in TSB to Sabadell.

Pursuant to the terms of the Offer, certain agreements, discussed below, were entered into by the Company and other parties, which became effective on Admission.

Separation Agreement

TSB, TSB Bank and Lloyds Bank entered into a separation agreement on 9 June 2014 (the "**Separation Agreement**"). The Separation Agreement governs the separation of the TSB Group from Lloyds Banking Group and certain aspects of the relationship between the TSB Group and Lloyds Banking Group following Admission, including (amongst other things) the allocation of certain pre-Admission liabilities, including liability for breach of law and regulation and of customer terms and conditions.

Under the terms of the Separation Agreement, Lloyds Bank agreed to provide each member of the TSB Group with indemnity protections in respect of historical, pre-Admission issues (including issues in relation to the period between 9 September 2013, when TSB launched as a stand-alone bank, and Admission). This protection includes a broad and, save in certain limited respects, uncapped indemnity in respect of losses arising from pre-Admission acts or omissions that constitute breaches of law and regulation relating to customer agreements or the relevant security interest securing liability under such agreements (the "**Conduct Indemnity**"). The Conduct Indemnity provides TSB Group with economic protection against a wide range of types of losses resulting from historical conduct issues, including the costs of handling and settling customer claims and managing regulatory actions and investigations, the payment of regulatory or court imposed fines and penalties, the costs of any required customer redress, the costs of implementing required changes to systems and procedures and, subject to certain conditions and limitations, the costs of remedial marketing activity.

The Conduct Indemnity also provided the TSB Group with a limited period of continued protection for actions or omissions between Admission and 31 December 2014. Further indemnities were included in the Separation Agreement in respect of losses arising from certain persistent or systemic breaches and certain liabilities in respect of certain employment related litigation and in relation to Lloyds Banking Group pension schemes.

Transitional Services Agreements

TSB Bank and Lloyds Bank entered into a Transitional Services Agreement ("**TSA**") and a Long Term Services Agreement (the "**LTSA**") on 9 June 2014. Under the TSA, Lloyds Bank provides certain IT and operational services to TSB, on a transitional basis, for a term of up to the end of 31 December 2016 with certain services (including the IT services) continuing to be provided by Lloyds Bank to TSB on and from 1 January 2017 for a term of up to seven and a half years under the LTSA.

TSB Bank pays a core monthly service charge that includes an agreed baseline of service volumes. TSB Bank may terminate the TSA or the LTSA (or services thereunder) for cause or for convenience before its expiry date subject to minimum notice requirements. Lloyds Bank may only terminate the TSA or LTSA if required to do so by a regulatory authority or by law, or for non-payment of material charges by TSB Bank.

The LTSA outlines the respective responsibilities of each of TSB Bank and Lloyds Bank in relation to exit and provides a mechanism for the parties to continue to define and agree their respective obligations in detailed technical and commercial exit plans during the 12 months following Admission. Due to the critical nature of the IT services, Lloyds Bank and TSB Bank have defined in advance some specific transfer and migration options for TSB's IT operations and data to a third party provider or another financial institution with whom TSB enters into a merger or acquisition, as the case may be, to operate on TSB's behalf. Lloyds Bank would assume the cost of creating and transferring a clone operating system to a third party operator, subject to a £50 million contribution from TSB or, alternatively, if TSB exits the IT services via another migration option, Lloyds Bank has agreed to make a £450 million contribution to TSB's costs of undertaking the migration, and TSB may elect to spend some or all of the £450 million obtaining exit assistance services from Lloyds Bank. With certain exceptions, Lloyds Bank has agreed to support the exit of the services (including both IT services and non-IT services) on a time and materials at cost basis.

Mortgage Sale and Servicing Agreements

On 4 March 2014, TSB Bank and BoS entered into a mortgage sale agreement in relation to the equitable assignment (which took effect from 28 February 2014) of a portfolio of residential mortgages ("**Additional Mortgages**") transferred by BoS to TSB Bank ("**MSA**") as well as a mortgage servicing agreement ("**Servicing Agreement**"). Pursuant to the MSA, TSB Bank purchased the equitable interest of BoS in the Additional Mortgages for approximately £3.4 billion (being equal to the fair value of the Additional Mortgages at the time of transfer. Under the terms of the MSA, legal title in the Additional Mortgages has remained and will remain with BoS unless a perfection event occurs (namely an insolvency event in relation to BoS, specified material breach by BoS of its obligations under the MSA or following termination of the appointment of BoS as servicer under the MSA at the option of TSB Bank). Unless and until any such perfection event occurs, the Additional Mortgage customers remain customers of BoS. In the Servicing Agreement, BoS agreed to service the Additional Mortgages, including all aspects of the customer relationship, in return for the payment by TSB Bank of a monthly servicing fee equivalent to 0.12 per cent. per annum of the outstanding balance of the Additional Mortgages (subject to a minimum monthly fee of £175,000 from 1 July 2018).

RMBS Funding Facility Agreements

On 20 May 2014, TSB Bank and a special purpose vehicle established by TSB Bank ("**TSB RMBS SPV**") and others entered into the RMBS Mortgage Sale Agreement, and the same parties, together with Lloyds Bank and others entered into a variable funding note issuance deed ("**VFNID**") and other ancillary documents in relation to the securitisation structure by which TSB part-funds the Additional Mortgages (the "**RMBS Funding Facility**").

Under the terms of the VFNID, senior funding is raised by TSB RMBS SPV through a combination of drawings on a variable funding note ("**VFN**") issued by TSB RMBS SPV to Lloyds Bank (the "**Lloyds VFN**"), and TSB Bank. Subject to certain conditions, up until 17 December 2018, TSB RMBS SPV has the option to repay and redraw the Lloyds VFN (in whole or in part).

Information about the Lloyds Banking Group's relationship with the UK Government

HM Treasury Shareholding

As at 13 May 2016 HM Treasury held approximately 9 per cent. of the Company's issued share capital with rights to vote in all circumstances at general meetings. HM Treasury's percentage holding has reduced from 24.9 per cent. at 31 December 2014 by way of the pre-arranged trading plan referred to in the section headed "*Business – History and Development of Lloyds Banking Group*".

HM Treasury's shareholding in the Company is a consequence of its subscription for equity securities of the Company and of HBOS (prior to the acquisition of HBOS by the Company) in a placing and open offer and preference share subscription, the concomitant placing and open offer by HBOS, the 2009 placing and open offer and the Company's 2009 rights issue.

HM Treasury's shareholding in the Company is currently managed by UKFI on behalf of HM Treasury. This relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 1 October 2010 – for more information see "*Risk Factors — Government Related Risks — The Solicitor for the Affairs of HM Treasury is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business*".

The goals of the framework document are consistent with the stated public policy aims of HM Treasury, as articulated in a variety of public announcements. 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 Company and HM Treasury in January 2009 entered into a registration rights agreement granting customary demand and "piggyback" registration rights in the United States under the Securities Act to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury. The agreement was amended in June 2009 to include as registrable securities the new shares subscribed for by HM Treasury in the 2009 placing and open offer, any other securities in the Company called by HM Treasury to be issued by any person and any securities issued by HM Treasury which are exchangeable for, convertible into, give rights over or are referable to any such securities. The Company also in June 2009 entered into a resale rights agreement with HM Treasury in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, other securities held by HM Treasury in the Company or any securities of any description caused by HM Treasury to be issued by any person which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine.

Other related party transactions with the UK Government

Government and Central Bank Facilities

During the year ended 31 December 2015, 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 participates 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 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 pre-agreed period of time.

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 original initiative supported 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 an extension of the Funding for Lending Scheme until the end of January 2015. This extension of the Funding for Lending Scheme focused on providing businesses with cheaper finance to invest and grow. In December 2014, the Bank of England announced a further extension to the Funding for Lending Scheme running to the end of January 2016 with an increased focus on supporting small businesses. In November 2015, the Bank of England announced that the deadline for banks to draw down their borrowing allowance would be extended for two years until 31 January 2018. At 31 December 2015, the Group had drawn down £32 billion (31 December 2014: £20 billion) under the Funding for Lending Scheme, of which £22 billion had been drawn down under the extension to the scheme announced in 2013.

Enterprise Finance Guarantee

The Group participates in the Enterprise Finance Guarantee Scheme which was launched in January 2009 as a replacement for the Small Firms Loan Guarantee Scheme. The scheme is a UK Government-backed loan guarantee, which supports viable businesses with access to lending where they would otherwise be refused a loan due to a lack of lending security. The Department for Business, Innovation and Skills (formerly the Department for Business, Enterprise and Regulatory Reform) provides the lender with a guarantee of up to 75 per cent. of the capital of each loan subject to the eligibility of the customer within the rules of the scheme. As at 31 December 2015, the Group had offered 6,509 loans to customers, worth over £550 million. Under the most recent renewal of the terms of the scheme, Lloyds Bank and BoS, on behalf of the Group, contracted with the Secretary of State for Business, Innovation and Skills.

Help To Buy

On 7 October 2013, BoS entered into an agreement with the Commissioners of HM Treasury by which it agreed that the Halifax Division of BoS would participate in the Help to Buy Scheme with effect from 11 October 2013 and that Lloyds Bank would participate from 3 January 2014. The Help to Buy Scheme is a scheme promoted by the UK 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 Help to Buy 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. £3,133 million of outstanding loans at 31 December 2015 (31 December 2014: £1,950 million) had been advanced under this scheme.

Business Growth Fund

As at 31 December 2015, the Group had invested £176 million (31 December 2014: £118 million) in the Business Growth Fund (under which an agreement was entered into with RBS amongst others) and carried the investment at a fair value of £170 million (31 December 2014: £105 million).

Big Society Capital

As at 31 December 2015, the Group had invested £36 million (31 December 2014: £31 million) in the Big Society Capital Fund under which an agreement was entered into with RBS amongst others.

Housing Growth Partnership

As at 31 December 2015, the Group has committed to invest up to £50 million into the Housing Growth Partnership under which an agreement was entered into with the Homes and Communities Agency.

Central bank facilities

In the ordinary course of business, the Group may from time to time access market-wide facilities provided by central banks.

Other Government-related entities

Other than the transactions referred to above, there were no other significant transactions with the UK Government and UK Government-controlled entities (including UK Government-controlled banks) during the period that were not made in the ordinary course of business or that were unusual in their nature or conditions.

Other relationships with the UK Government

The Group, in common with other financial institutions, is also working closely with a number of UK Government departments and agencies on various industry-wide initiatives that are intended to support the UK Government's objective of economic recovery and greater stability in the wider financial system.

For more detail on industry-wide initiatives see sections "*Major Shareholders and Related Party Transactions — Other related party transactions with the UK Government — Business Growth Fund*" and "*Major Shareholders and Related Party Transactions — Other related party transactions with the UK Government — Big Society Capital*" above.

Other related party transactions

Other related party transactions for the twelve months to 31 December 2015 are similar in nature to those for the year ended 31 December 2014.

Directors of the Bank and the Company

The directors of the Bank and the Company, 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 Group, are as follows:

Name	Principal outside activities
Lord Blackwell (63) Chairman	None
Executive directors	
António Horta-Osório (52) Group Chief Executive	Non-executive Director of EXOR S.p.A., Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR and Chairman of the Wallace Collection.
Juan Colombás (53) Chief Risk Officer	Vice Chairman of the International Financial Risk Institute.
George Culmer (53) Chief Financial Officer	None
Non-executive directors	
Alan Dickinson (65)	Non-executive director of Willis Limited and Chairman of its Risk Committee. Chairman of Urban & Civic plc and a Governor of Motability.
Anita Frew (58) (Deputy Chairman)	Non-executive Director of BHP Billiton and Chairman of Croda International Plc.
Simon Henry (54)	Chief Financial Officer and Executive Director of Royal Dutch Shell plc. Member of Main Committee of the 100 Group of UK FTSE CFOs and Chair of European Round Table CFO Taskforce. Also a member of the Advisory Panel of CIMA and of the Advisory Board of the Centre for European Reform.
Nick Luff (49)	Executive Director and Chief Financial Officer of RELX Group.
Deborah McWhinney (61)	Independent Director of Fluor Corporation and IHS Corporation, a Trustee of the California Institute of Technology and of the Institute for Defense Analyses and a member of the Supervisory Board of Fresenius Medical Care

Name	Principal outside activities
	AG & Co. KGaA.
Nick Prettejohn (55)	Member of the BBC Trust, Chairman of the Britten-Pears Foundation and Chairman of the Royal Northern College of Music.
Stuart Sinclair (62)	Non-Executive Director and Chair of the Risk Committees at Provident Financial Plc, Vitality Life and Vitality Health. Senior Independent Director at QBE Insurance (Europe) Limited and Swinton Group Limited.
Anthony Watson CBE (71) (Senior Independent Director)	Senior Independent Director of Witan Investment Trust. Chairman of Lincoln's Inn Investment Committee and member of the Norges Bank Investment Management Corporate Governance Advisory Board.
Sara Weller CBE (54)	Non-executive director of United Utilities Group plc and Chair of its Remuneration Committee and a Governing Council Member of Cambridge University. Also Chairman of the Planning Inspectorate and Board member at the Higher Education Funding Council.

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

TAXATION

1 General

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuers and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

2 United Kingdom Taxation

The comments below are based on current United Kingdom tax law as applied in England and Wales and HMRC practice (which may not be binding on HMRC). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any Noteholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Taxation of Interest

(i) Dated Subordinated Notes

Pursuant to the Taxation of Regulatory Capital Securities Regulations 2013 (the "**Regulations**") payments of interest on Dated Subordinated Notes may be made without withholding or deduction on account of United Kingdom income tax under section 874 of the Income Tax Act 2007 (the "**Act**") provided that such Notes qualify, or have qualified, as Tier 2 instruments under Article 63 of the CRR and such Notes form, or formed, a component of Tier 2 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 in respect of such Notes.

*(ii) Senior Notes and Dated Subordinated Notes not falling within paragraph (i) above ("**Non-Regulatory Capital Notes**")*

While the Non-Regulatory Capital Notes are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Act, payments of interest by the Issuers on the Non-Regulatory Capital Notes may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

Payments of interest by the Bank on the Non-Regulatory Capital Notes may be made without withholding or deduction for or on account of United Kingdom income tax, provided that it continues to be a bank within the meaning of section 991 of the Act and provided that the interest on the Non-Regulatory Capital Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act. Interest on the Non-Regulatory Capital Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where at the time interest on the Non-Regulatory Capital Notes is paid, the relevant Issuer reasonably believes either:

(a) that the beneficial owner is a United Kingdom resident company or is a non-United Kingdom resident company which is within the charge to United Kingdom corporation tax as regards the payment of interest; or

(b) that the payment is made to one of the bodies or persons, and in accordance with any applicable conditions, set out in sections 935 to 937 of the Act,

provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Non-Regulatory Capital Notes with a maturity date of less than one year and which are not issued with the intention, or under a scheme or arrangement the effect of which is, that such Non-Regulatory Capital Notes form part of a borrowing intended to be capable of remaining outstanding for a year or more may be paid without withholding or deduction for or on account of United Kingdom tax.

In all other cases, an amount must generally be withheld from payments of interest on the Non-Regulatory Capital Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary HMRC under an applicable double taxation treaty.

(iii) All Notes

Interest with a United Kingdom source may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction for or on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or (in the case of companies) such persons carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case United Kingdom tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom for tax purposes may be able to recover all or part of the tax deducted under an applicable double taxation treaty.

Noteholders should recognise that the provisions relating to additional amounts referred to in "*Terms and Conditions of the Notes — Taxation*" would not apply if HMRC sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

3 The Proposed Financial Transaction Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Summary of Programme Agreement

Subject to the terms and on the conditions contained in a Programme Agreement originally dated 4 October 1996 and amended and restated on 17 May 2016 (as modified and/or supplemented and/or restated as at the date of the issue of the Notes, the "**Programme Agreement**") between the Issuers, the Dealers (the "**Permanent Dealers**") and such additional persons that are appointed as dealers in respect of the Programme (and whose appointment has not been terminated), as the case may be, and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers and any such additional dealers. However, the Issuers have reserved the right to sell Notes directly on their own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The relevant Issuer may pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuers have agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment and update of the Programme.

The relevant Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

Other Relationships

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank, the Company or any of their affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Bank, the Company or any of their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank, the Company or any of their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank and/or the Company routinely hedge their credit exposure to the relevant Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Bank's and/or the Company's securities, including potentially any Notes which may be offered under the Programme. Any such short positions could adversely affect future trading prices of any Notes offered under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or

financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

SELLING RESTRICTIONS

United States

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

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuers for use in connection with the offer and sale of the Notes outside the United States. The Issuers and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not or, in the case of the Bank, would not, if the Bank was not an authorised person, apply to the relevant Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Argentina

The Notes are not registered with the *Comisión Nacional de Valores* (the Argentine securities commission or the "**CNV**") nor are the Issuers authorised issuers registered with the CNV. Consequently, no public offering of the Notes is authorised in Argentina and the Notes may not be sold under the Argentine Capital Markets Law No. 26,831, as amended, as regulated by Decree No. 1,023/2013 (the "**Securities Law**"). Furthermore, because the Securities Law does not have extraterritorial effects, public offerings which take place outside of Argentina are not regulated by the Securities Law.

Accordingly, any transactions involving the Notes must be done privately, in circumstances that do not constitute a public offering or distribution under Argentine law and regulations.

Each Dealer has represented and warranted, and each further Dealer appointed under the Programme will be required to represent and warrant, that it will not (i) be domiciled or be located in Argentina, nor have a local presence in Argentina, (ii) engage in any invitation to the general Argentine public, or certain sectors or groups in Argentina, made through personal offers, newspaper advertisements, radio or television broadcasts, internet, websites, films, billboards, signs, programmes, massive e-mail distributions, circulars, printed notices, marketing materials or by any other means, to enter into any transaction involving the Notes, (iii) offer or sell the Notes to any other person, whether by traditional or electronic means, for re-sale, directly or indirectly in Argentina, unless in compliance with the Securities Law, as amended, any regulations issued thereunder, and any other applicable Argentine laws and regulations; or (iv) negotiate in Argentina the terms and conditions of the transaction to be entered into with the investor, and the transaction will be closed and settled outside of Argentina. Failure to comply with one or more of these guidelines will not automatically result in a public offering of securities, but rather the situation would have to be reviewed depending on that particular case.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Australian Corporations Act**") in relation to the Programme or any Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, unless the relevant Final Terms (or a relevant supplement to this Prospectus) otherwise provides, it:

(a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this Prospectus or any other offering material or advertisement relating to the Notes in Australia,

unless:

(i) the aggregate consideration payable by each offeree is at least A$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Australian Corporations Act;

(ii) the offer or invitation does not constitute an offer to a "retail client" for the purposes of section 761G and 761GA of the Australian Corporations Act;

(iii) such action complies with any applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Australian Corporations Act) in Australia; and

(iv) such action does not require any document to be lodged with ASIC.

Belgium

The Notes may not be distributed in Belgium by way of an offer of securities to the public, as defined in Article 3 §1 of the Belgian Law of 16 June 2006 on public offerings of investment instruments and the admission of investment instruments to trading on regulated markets, as amended from time to time, (the "**Prospectus Law**"), save in those circumstances set out in Article 3 §2-4 of the Prospectus Law.

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and this Prospectus or any other offering material relating to the Notes has not been and will not be approved by, the Belgian Financial Services and Markets Authority (*Autorité des Services et Marches Financiers / Autoriteit voor Financiële Diensten en Markten*).

Accordingly, the offering may not be advertised and each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

(i) qualified investors, as defined in Article 10 of the Prospectus Law;

(ii) investors required to invest a minimum of €100,000 (per investor and per transaction); and

(iii) in any other circumstances set out in Article 3 §2-4 of the Prospectus Law.

This Prospectus has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of Notes. Accordingly, the information contained herein may not be used for any other purpose nor disclosed to any other person in Belgium.

Bermuda

This Prospectus and the Notes offered hereby have not been, and will not be, filed or registered under the laws and regulations of Bermuda, nor has any regulatory authority in Bermuda passed comment upon or approved the accuracy or adequacy of this Prospectus. The Notes offered hereby may not be offered to the public in Bermuda, except in compliance with the provisions of the Investment Business Act 2006 of Bermuda which regulates the sale of securities in Bermuda and neither this Prospectus, which has not been submitted to the Bermuda Minister of Finance, the Bermuda Registrar of Companies or the Bermuda Monetary Authority, nor any offering material or information contained herein relating to the Notes, may be supplied to the public in Bermuda or used in connection with any offer for the subscription or sale of Notes to the public in Bermuda.

Brazil

The Notes have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets. Neither the Issuers nor any of the Notes have been or will be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) (the "**CVM**"). Any public offering or distribution of the Notes in Brazil, as defined under Brazilian laws and regulations, requires prior registration under Law No. 6,385, of 7 December 1976, as amended, and Instruction No. 400, issued by the CVM on 29 December 2003, as amended. Documents relating to an offering of the Notes by this Prospectus, as well as information contained therein, may not be distributed to the public in Brazil, nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil. The Notes may not be offered or sold in

Brazil and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Brazil, except in circumstances that do not constitute a public offering, placement, negotiation or distribution under Brazilian laws and regulations.

Cayman Islands

No offer or invitation by, or on behalf of, the Issuers to subscribe for the Notes may be made from a place of business in the Cayman Islands to the public in the Cayman Islands.

Chile

Notice to Prospective Investors in Chile

The offer of the Notes is subject to Rule (*Norma de Carácter General*) No. 336, dated 27 June, 2012 issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile* or "**SVS**"). The Notes will not be registered under the Securities Market Law in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, the Issuers are not required to disclose public information about the Notes in Chile. Accordingly, the Notes cannot and will not be publicly offered to persons in Chile unless registered with the relevant Securities Registry of the SVS. The Notes may only be offered in Chile in circumstances that do not constitute a public offering under Chilean law or in compliance with General Rule No. 336 of the SVS. Pursuant to General Rule No. 336, the Notes may be privately offered in Chile to certain "qualified investors" identified as such therein (which in turn are further described in General Rule No. 216, dated 12 June 2008 of the SVS).

Información a los Inversionistas Chilenos

*La oferta de los bonos se encuentra acogida a la la Norma de Carácter General N° 336 (la "**NCG 336**"), de 27 de junio de 2012, de la Superintendencia de Valores y Seguros de Chile (la "**SVS**"). Los bonos que se ofrecen no están inscritos bajo la Ley de Mercado de Valores en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que tales valores no están sujetos a la fiscalización de ésta. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Los bonos no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente. Los bonos solo podrán ser ofrecidos en Chile en circunstancias que no constituyan una oferta pública o cumpliendo con lo dispuesto en la Norma de Carácter General N°336 de la SVS. En conformidad con lo dispuesto por la Norma de Carácter General N°336, los bonos podrán ser ofrecidos privadamente a ciertos "inversionistas calificados" identificados como tal en dicha norma (y que a su vez están descritos en la Norma de Carácter General N°216 de la SVS de fecha 12 de junio de 2008).*

Colombia

This Prospectus does not constitute a public offer in the Republic of Colombia. It is being distributed under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Neither the Notes nor the Issuers have, and will not be, registered with the Superintendence of Finance of Colombia. The distribution of this Prospectus is made to less than one hundred specifically identified potential Colombian investors. Potential Colombian investors should make their own decision whether this financial product meets their investment objectives and risk tolerance level. Each potential Colombian investor should make its own inquiries and consult its own advisors as to this financial product and the Issuers, including the merits and risks involved, and as to legal, tax and related matters

concerning an investment in the Notes. This Prospectus is marketed in Colombia or provided to Colombian residents in compliance with decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign financial and/or securities related products or services in Colombia. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may only be promoted to Colombian residents in compliance with decree 2555 of 2010 and under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations.

Colombian residents acknowledge and confirm Colombian laws and regulations (in particular, foreign exchange, securities and tax regulations) applicable to any solicitation of foreign financial products and represent that they are the sole liable party for full compliance with any such laws and regulations. In addition, the Colombian residents ensure that the Issuers will have no responsibility, liability or obligation in connection with any consent, approval, filing, proceeding, authorisation or permission required by the investor or any actions taken or to be taken by the investor in connection with the offer, sale or delivery of the Notes under Colombian law.

Dubai International Financial Centre

This Prospectus relates to an Exempt Offer in accordance with the Markets Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to Professional Clients (as defined by the DFSA) who are not natural persons. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

Ecuador

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) to the extent the Notes qualify as securities within the meaning of article 2 of the Stock Market Law ("**SML**"), it will not publicly offer, sell or advertise the Notes in or from Ecuador, as such term is defined or interpreted under the SML; and

(ii) to the extent the Notes could also qualify as banking products within the meaning of the Monetary and Financing Code (the "**COMF**"), it will not publicly and massively offer, sell or advertise the Notes in or from Ecuador, as such term is interpreted under the COMF.

Neither this Prospectus nor any other documents related to the Notes constitute a prospectus in the sense of article 12(3) of the SML and neither this Prospectus nor any other documents related to the Notes may be publicly distributed or otherwise made publicly available in Ecuador. The Issuers have not applied for a listing of the Notes on the Stock Market Registry nor in any regulated securities market in Ecuador, and consequently, the information presented in this Prospectus does not necessarily comply with the information standards set out in the SML.

France

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) Offer to the public in France:

it has only made and will only make an offer of Notes to the public in France approved by the *Autorité des marchés financiers* ("**AMF**") in the period beginning on the date of notification to the AMF of the approval of the prospectus relating to those Notes by the competent authority of a member state of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC, as amended, all in accordance with Articles L.412-1 and L.621-8 of the French Code *monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of such prospectus; or

(ii) Private placement in France:

it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, the relevant Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*) and/or (c) a limited circle of investors (*cercle restreint*) acting for their own account, as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French *Code monétaire et financier.*

Gibraltar

Gibraltar is part of the European Economic Area, having joined under the United Kingdom in 1973 (as a European territory for whose external relations a Member State is responsible). Gibraltar has implemented the Prospectus Directive.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including 2 August 2005 (the "**Gibraltar Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in Gibraltar except that it may, with effect from and including the Gibraltar Implementation Date, make an offer of such Notes to the public in Gibraltar if:

(i) the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 6(4) of the Gibraltar Prospectuses Act 2005 (the "**GPA**") in Gibraltar (a "**Gibraltar Non-Exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the Gibraltar Financial Services Commission (the "**GFSC**") or, where appropriate, approved in another Relevant Member State and notified to the GFSC, in accordance with the GPA, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Gibraltar Non-Exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable and the Issuers have consented in writing to its use for the purpose of a Gibraltar Non-Exempt Offer,

(ii) the offer is addressed only to "qualified investors" as defined in the GPA;

(iii) the offer is addressed to fewer than 150 persons per Member State, other than qualified investors;

(iv) at any time in any other circumstances falling within section 6(4) of the GPA,

provided that no such offer of Notes referred to in paragraphs (ii) to (iv) above shall require the Issuers or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive or require the Issuers to comply with the procedures stipulated under the Gibraltar Companies Act 2014 concerning prospectuses.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) with respect to anything done by it in relation to the Notes, in, from or otherwise involving Gibraltar, it has complied and will continue to comply with all provisions applicable to it under the Gibraltar Financial Services (Investment and Fiduciary Services) Act 1989, the Gibraltar Financial Services (Markets in Financial Instruments) Act 2006 and the Gibraltar Financial Services (Banking) Act 1992; and

(ii) it will not issue or cause to be issued, make or cause to be made, any investment advertisement or promotion in or from within Gibraltar, unless:

(a) it is authorised and/or approved to do so under the provisions applicable to it under the Gibraltar Financial Services (Investment and Fiduciary Services) Act 1989, the Gibraltar Financial Services (Markets in Financial Instruments) Act 2006, the Gibraltar Financial Services (Banking) Act 1992 and the Gibraltar Financial Services (Advertisements) Regulations 1991;

(b) an advertisement for a Gibraltar Non-Exempt Offer, is in accordance with section 17 of the GPA; and

(c) it has received the prior written approval of the Issuers.

Guernsey

The Notes are not being offered to the public in Guernsey and the Notes will not be offered to the public unless all the relevant legal and regulatory requirements of Guernsey law have been complied with. This Prospectus may not be generally distributed in Guernsey. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, on terms to this effect.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Securities and Futures Ordinance**") other than (a) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous

Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Ireland

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(i) it will not offer, underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended) including, without limitation, Regulations 7 and 152 thereof or any codes of conduct issued in connection therewith, and the provisions of the Investor Compensation Act 1998;

(ii) it will not offer, underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act 2014 of Ireland, the Central Banks Acts 1942 to 2014 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(iii) it will not offer, underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank of Ireland under Section 1363 of the Companies Act 2014 of Ireland;

(iv) it will not offer, underwrite the issue of, place, or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 (as amended) and any rules issued by the Central Bank of Ireland under Section 1370 of the Companies Act 2014 of Ireland; and

(v) no Notes will be offered or sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Central Bank of Ireland.

Isle of Man

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has only engaged in, and will only engage in, investment activity with Isle of Man persons, and that it has only communicated or caused to be communicated and will only communicate or cause to be communicated to, Isle of Man persons invitations or inducements to engage in investment activity, in the circumstances permitted in terms of paragraph 2(d) of Schedule 1 to the Isle of Man Regulated Activities Order 2011, or if it has otherwise complied and will otherwise comply with all applicable Isle of Man laws and regulations with respect to anything done by it in relation to any Notes in, from or otherwise involving the Isle of Man.

This Prospectus has not been, and is not required to be, filed or lodged with any regulatory or other authority in the Isle of Man. The Issuers are not subject to regulatory approval in the Isle of Man and holders of Notes are not protected by any statutory compensation arrangements in the event of the Issuer's failure. The Isle of Man Financial Supervision Commission does not vouch for the financial soundness of the Issuers or the correctness of any statements made or opinions expressed with regard to them.

Israel

The Notes offered hereby are not being sold pursuant to a prospectus that has been qualified with the Israeli Securities Authority. As such, the Notes may not be offered in Israel or to Israeli residents other than to persons who have confirmed in writing prior to and in connection with their investment that (i) they are among the types of investors listed in Sections (1) – (9) of Appendix 1 of the Securities Law, 5728-1968, of the State of Israel (an "**Exempted Investor**"), (ii) they are aware of the legal consequences of their qualifying as an Exempted Investor and consent thereto, and (iii) they are purchasing the Notes for their own account, for investment purposes, and without a present intention of resale.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the account or benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Jersey

An offer for subscription, sale or exchange of the Notes will not be circulated in Jersey and this Prospectus will not be circulated in Jersey unless all the relevant legal and regulatory requirements of Jersey law have been complied with prior to such circulation. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, on terms to this effect.

Malta

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: (i) it has not issued or caused to be issued and it will not issue or cause to be issued any investment advertisement, as defined in the Investment Services Act (Chapter 370 of the Laws of Malta) (the "**ISA**"), in relation to the Notes or the offer of Notes, in or from within Malta, except that it may issue or cause to be issued such investment advertisement in or from within Malta if it is issued or its contents have been approved by a licence holder in terms of the ISA or if and to the extent that an exemption from the requirements set out in article 11(1)(b) of the ISA applies under Maltese law; and (ii) if any offer of Notes is made to the public in Malta and/or any advertisement or any other document or information in relation to an offer of Notes or the Notes is issued or caused to be issued in or from Malta, such offer will be made and/or such advertisement, document or information will be so issued or caused to be issued in accordance with Maltese law.

Each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not issue or cause to be issued any investment advertisement, as defined in the ISA, in relation to the Notes or the offer of Notes, in or from within Malta, unless it is authorised to do so by the Issuers.

Mexico

The Notes have not and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) of Mexico and they may not be publicly offered in Mexico. The Notes may, however, be privately offered in Mexico in the context of one of the private placement exceptions included in the Mexican Securities Market Law (*Ley del Mercado de Valores*).

Monaco

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Notes shall not be marketed, offered or sold, directly or indirectly, to the public in Monaco other than, by a Monaco duly authorised intermediary acting as a professional institutional investor which has such knowledge and experience in financial and business matters as to be capable of evaluating the risks and merits of an investment in the Notes. Consequently, the Notes may only be communicated to banks duly licensed by the *Autorité de Contrôle Prudentiel et de Résolution* and by the *Ministère d'Etat* and/or to fully licensed portfolio management companies the said licence being granted by the *Commission de Contrôle des Activités Financières* by virtue of Law n° 1.338 of 7 September 2007.

The recipient of this Prospectus is perfectly fluent in English and waives the possibility to a French version of the Programme.

Les destinataires du présent document reconnaissent être à même d'en prendre connaissance en langue anglaise et renoncent expressément à une traduction française.

Panama

These Notes have not been and will not be registered with the Superintendence of the Capital Markets of the Republic of Panama under Decree Law N°1 of 8 July 1999 (the "**Panamanian Securities Act**") and may not be publicly offered or sold within Panama, except in certain limited transactions exempt from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from the tax incentives provided by the Panamanian Securities Act and are not subject to regulation or supervision by the Superintendence of the Capital Markets of the Republic of Panama.

Paraguay

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been registered and are not being distributed and will not be distributed in Paraguay by way of a public offer, as defined in Article 4 of Law N° 1284/98 (*Ley del Mercado de Valores*).

The Notes offered herein were issued outside of Paraguay. Accordingly, the Paraguayan Central Bank (Banco Central del Paraguay), the Paraguayan Stock Exchange Commission (*Comisión Nacional de Valores del Paraguay*) and the Paraguayan Banking Superintendency (*Superintendencia de Bancos del Banco Central del Paraguay*) do not regulate the offering of these Notes or any obligations that may arise from such offering.

The Paraguayan Deposit Insurance legislation (*Ley 2.334/2003 de Garantía de Depósitos*) does not insure investments in the offered Notes.

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold by it or any of its affiliates, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Peru

Neither this Prospectus nor the Notes have been registered with the Peruvian Securities Market Regulator ("**Superintendencia del Mercado de Valores**"). Accordingly, each Dealer has further represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it and each of its affiliates has not offered or sold, and will not offer or sell, any Notes in Peru except that they may offer Notes in circumstances which do not constitute a public offering under Peruvian laws and regulations.

The Notes will not be registered in the *Registro Público del Mercado de Valores*. As a result, the offering of the Notes is limited to the restrictions set forth in the Peruvian Securities Market Law. Noteholders are not permitted to transfer the Notes in Peru unless said transfer involves an institutional investor or the Notes are previously registered in the *Registro Público del Mercado de Valores*.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this Prospectus or any other document relating to the Notes in Italy except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the "**Issuers Regulation**"), all as amended from time to time; or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;

(ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Republic of Korea

The Notes have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively the "**FSCMA**"). The Notes may not be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except as otherwise permitted under the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, the "**FETL**"). Without prejudice to the foregoing, the number of the Notes offered in Korea or to a resident in Korea shall be less than fifty, and for a period of one year from the Issue Date of the Notes, none of the Notes may be divided resulting in an increased number of the Notes. Furthermore, the Notes may not be resold to Korean residents unless the purchaser of the Notes complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Notes.

San Marino

This Prospectus has not been registered with the Central Bank of San Marino ("**Banca Centrale della Repubblica di San Marino**", also "**BCSM**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered or sold to the public in San Marino pursuant to and in compliance with the Law 2005/165 "*Legge sulle imprese e sui servizi bancari, finanziari ed assicurativi*", the BCSM Rule 2007/07 and BCSM Rules 2006-03, as amended, and any regulation issued thereunder. Therefore, no offer will be made to the public, whether directly or indirectly, in San Marino unless it is in compliance with the LISF and BCSM Rules 2006-03 and 2007/07 and any regulation issued thereunder.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Spain

This Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes may only be offered in Spain to investors acquiring each an amount equal to €100,000 pursuant to and in compliance with Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

Sweden

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer will be made to the public in Sweden unless it is in compliance with the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*) and any other applicable Swedish law.

Switzerland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except where explicitly permitted by the relevant Final Terms:

(i) it will not publicly offer the Notes in or from Switzerland, as such term is defined or interpreted under the Swiss Code of Obligations ("**CO**"); and

(ii) to the extent the Notes qualify as structured products (the "**Structured Products**") within the meaning of the Swiss Collective Investment Schemes Act (the "**CISA**"), it will not offer, sell, advertise or distribute the Notes in or from Switzerland, as such terms are defined or interpreted under the CISA, except to qualified investors as defined in article 10 CISA (the "**Qualified Investors**").

The Notes may not be publicly offered in or from Switzerland, except in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to

Notes, the Final Terms of which do no explicitly permit a public offer in Switzerland, may not be publicly distributed or otherwise made publicly available in Switzerland.

To the extent the Notes qualify as Structured Products, the Notes may not be offered, sold, advertised or distributed, directly or indirectly, in or from Switzerland, except (i) to Qualified Investors or (ii) in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland. Offering or marketing material relating to Notes, which qualify as Structured Products and the Final Terms of which do not explicitly permit a public offer in Switzerland, may not be distributed or otherwise made available in Switzerland, except (i) to Qualified Investors or (ii) in the case of Notes, the Final Terms of which explicitly permit a public offer in Switzerland.

The Notes do not constitute participations in a collective investment scheme within the meaning of the CISA. Therefore, the Notes are not subject to the approval of, or supervision by, the Swiss Financial Market Supervisory Authority ("**FINMA**"), and investors in the Notes will not benefit from protection under the CISA or supervision by FINMA.

Taiwan

The Notes, if listed on the Taipei Exchange for sale to professional or general investors in Taiwan and to the extent permitted by the relevant Taiwan laws and regulations, may be sold in Taiwan to professional or general investors, as applicable, or, if not listed on the Taipei Exchange, may be made available, (i) to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan; (ii) to the Offshore Banking Units of Taiwan banks or the Offshore Securities Units of Taiwan securities firms purchasing the Notes either for their proprietary account or for the accounts of their non-Taiwan clients ("**OBU/OSU Channel Sales**"); and/or (iii) to investors in Taiwan through certain licensed Taiwan financial institutions to the extent permitted under relevant Taiwan laws and regulations, but may not, otherwise be offered, sold or resold in Taiwan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Uruguay

The Notes have not been registered with the Superintendence of Financial Services in Uruguay and were not and will not be traded on any Uruguayan stock exchange.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to the public in Uruguay, except pursuant only to a private offer of securities.

Venezuela

Neither this Prospectus nor the Notes have been registered with the Venezuelan Securities Market Regulator ("*Superintendencia Nacional de Valores*"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that will not conduct a Public Offer of the Notes in Venezuela. For the sole purpose of this selling restriction with respect to Venezuela, "Public Offer" is the offer of Notes made to the public, particular sectors or groups through any publicity or diffusion means in Venezuela.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that will not privately place or offer the Notes within Venezuela.

General

These selling restrictions may be modified by the agreement of the Issuers and the Dealers following a change in a relevant law, regulation or directive.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Neither the Issuers nor the Dealers represent that Notes may at any time lawfully be sold in compliance with any appropriate registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and, that it will, obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws, regulations and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sale or deliveries, and neither the Issuers nor any other Dealer shall have responsibility therefor.

TRANSFER RESTRICTIONS

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period (as used in "**Selling Restrictions**"), by its acceptance of such Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (as such terms are defined in Regulation S) and (b) it is not an affiliate of the Issuers or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(iii) It understands that the Issuers, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(iv) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate or a Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate or the Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate or the Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

(v) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

> "THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."

FORM OF FINAL TERMS

Final Terms dated [●]

[Lloyds Bank plc]

[Lloyds Banking Group plc]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £50,000,000,000

Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") contained in the Trust Deed dated [**date**] and set forth in the Prospectus dated [**date**] [and the supplemental Prospectus[es] dated [**date[s]**]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus[es]] [is] [are] available for viewing at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html* and copies may be obtained from [Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN] [Lloyds Banking Group plc, The Mound, Edinburgh EH1 1YZ].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") contained in the Trust Deed dated [**original date**] and set forth in the Prospectus dated [**original date**] [and the supplemental Prospectus[es] dated [**date[s]**]] and incorporated by reference into the Prospectus dated [**current date**] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) and amendments thereto, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [**current date**] [and the supplemental Prospectus[es] dated [**date[s]**]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus[es]] are available for viewing at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html* and copies may be obtained from [Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN] [Lloyds Banking Group plc, The Mound, Edinburgh EH1 1YZ].]

1	Issuer:		[Lloyds Bank plc] [Lloyds Banking Group plc]
2	(i)	Series Number:	[●]
	(ii)	[Tranche Number:]	[●]
	(iii)	[Date on which Notes will be consolidated and form a single Series]	[The Notes will be consolidated and form a single Series with [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, which is expected to occur

		on or about [●]]/Not Applicable]
3	Specified Currency:	[●]
4	Aggregate Nominal Amount:	[●]
	(i) [Series:]	[●]
	(ii) [Tranche:]	[●]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]]
	(ii) Calculation Amount:	[●] [Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, with CNY0.005 being rounded upwards.]
	[(iii) Minimum Consideration Payable]	[The Notes will not be issued to a subscriber of the Notes unless the aggregate consideration payable by the subscriber is at least A$500,000 (or its equivalent in an alternative currency, in either case, disregarding moneys lent by the offeror or its associates)]
7	(i) [Issue Date:]	[●]
	(ii) [Interest Commencement Date:]	[Issue Date/[●]/Not Applicable]
8	Maturity Date:	[[●]/Interest Payment Date falling in or nearest to [●]]
9	Interest Basis:	[[●] per cent. Fixed Rate] [●] per cent. to be reset on [●] [[and [●]] and every [●] anniversary thereafter Fixed Rate Reset] [[LIBOR/EURIBOR] +/– ● per cent. Floating Rate] [Zero Coupon]
10	Redemption Basis:	[Redemption at par/Redemption at [●] per Calculation Amount]
11	Change of Interest or Redemption/Payment Basis:	[[●]/Not Applicable]
12	Alternative Currency Equivalent:	[Not Applicable/Applicable]

	(i) Alternative Currency:	[●]
	(ii) Alternative Currency Adjudication Agent:	[●]
	(iii) Alternative Currency Calculation Agent:	[●]
	(iv) Rate Calculation Jurisdiction(s):	[●]
	(v) Rate Calculation Business Days:	[●]
	(vi) Scheduled Payment Currency Disruption Events:	As specified in the Conditions [and [●]]
	(vii) Settlement Rate Option:	[[●]/Alternative Currency Adjudication Agent Determination]
	(viii) USD Settlement Rate Option:	[[●]/Alternative Currency Adjudication Agent Determination/Not Applicable]
	(ix) Maximum Days of Postponement:	[●]
13	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
14	Status of the Notes:	[Senior/Dated Subordinated]
15	Senior Notes Waiver of Set-off:	[Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	**Fixed Rate Note Provisions**	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi annually/ quarterly/ monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [from and including [●]][until and excluding [●]] [Provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and

		currency deposits) in Hong Kong.]
	(iii) Fixed Coupon Amount[(s)]:	[[●] per Calculation Amount] [Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, with CNY0.005 being rounded upwards.]
	(iv) Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
	(v) Day Count Fraction:	[Actual/365] [Actual/365 (fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA]
	(vi) Determination Dates:	[[●] in each year/Not Applicable]
	(vii) [Business Day Convention:	[Applicable - Modified Following Business Day Convention/Not Applicable]
17	**Fixed Rate Reset Note Provisions**	[Applicable/Not Applicable]
	(i) Initial Rate of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] [and [●]] in each year [from and including [●]][until and excluding [●]]
	(iii) First Reset Date:	[●]
	(iv) Second Reset Date:	[[●]/Not Applicable]
	(v) Anniversary Date(s):	[[●]/Not Applicable]
	(vi) Reset Determination Dates:	[●]
	(vii) Reset Rate:	[[semi-annual][annualised]Mid-Swap Rate] [Benchmark Gilt Rate]
	(viii) Swap Rate Period:	[[●]/Not Applicable]
	(ix) Screen Page:	[ISDAFIX1]/[ISDAFIX2]/[ISDAFIX3]/ [ISDAFIX4]/[ISDAFIX5]/[ISDAFIX6]/[●]/[Not Applicable]
	(x) Fixed Leg	[[semi-annual]/[annual] calculated on a[n Actual/365]/[30/360]/[●] day count basis]/[Not Applicable]
	(xi) Floating Leg	[[3]/[6]/[●]-month [LIBOR]/[EURIBOR]/[●] rate

		calculated on an[Actual/365]/[Actual/360]/[●] day count basis]/[Not Applicable]
	(xii) Margin(s):	[+/–] [●] per cent. per annum
	(xiii) Fixed Coupon Amount[(s)] in respect of the period from (and including) the Interest Commencement Date up to (but excluding) the First Reset Date:	[[●] per Calculation Amount]
	(xiv) Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
	(xv) Day Count Fraction:	[Actual/365] [Actual/365 (fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA]
	(xvi) Determination Dates:	[[●] in each year/Not Applicable]
	(xvii) Calculation Agent:	[●]
18	**Floating Rate Note Provisions**	[Applicable/Not Applicable]
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●][from and including [●]][until and excluding [●]]
	(iii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention[●]]
	(iv) Business Centre(s):	[●]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Issuing and Paying Agent):	[●]
	(vii) Screen Rate Determination:	[Applicable/Not Applicable]
	– Reference Rate:	[LIBOR/EURIBOR]
	– Interest Determination Date(s):	[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Accrual Period/each Interest Payment Date
	– Relevant Screen Page:	[●]

	– Relevant Time:	[●]
	(viii) ISDA Determination:	[Applicable/Not Applicable]
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	(ix) Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
	(x) Margin(s):	[[+/–] [●] per cent. per annum]/[Not Applicable]
	(xi) Minimum Rate of Interest:	[[●] per cent. per annum]/[Not Applicable]
	(xii) Maximum Rate of Interest:	[[●] per cent. per annum]/[Not Applicable]
	(xiii) Day Count Fraction:	[Actual/365] [Actual/365 (fixed)] [Actual/360] [30/360] [30E/360] [30E/360 (ISDA)] [Actual/Actual ICMA]
19	**Zero Coupon Note Provisions**	[Applicable/Not Applicable]
	(i) Amortisation Yield:	[●] per cent. per annum
	(ii) Amortisation Yield compounding basis:	[Compounded/Non-compounded] [annually/semi-annually/other]
	(iii) Reference Price:	[●]
	(iv) Any other formula/basis of determining amount payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20	**Call Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[[●] per Calculation Amount/Early Redemption Amount]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●]
	(b) Maximum Redemption Amount:	[●]
	(iv) Notice period:	[●]/[Not less than five nor more than [●] days]

21	**Put Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[[●] per Calculation Amount/Early Redemption Amount]
	(iii) Notice period:	[●]
22	**Capital Disqualification Event Call**	[Applicable/Not Applicable]
23	**Final Redemption Amount**	[[●] per Calculation Amount/[●]]
24	**Early Redemption Amount**	
	Early Redemption Amount(s) payable on redemption for taxation reasons, following a Capital Disqualification Event or on event of default or other early redemption:	[[●] per Calculation Amount /[●]]
25	**Capital Disqualification Event Substitution and Variation**	[Applicable/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	**Form of Notes:**	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Registered Notes – Global Certificate — [Euroclear/Clearstream Luxembourg]/[CMU Service]] [CREST Depositary Interests ("**CDIs**") representing the Notes may also be issued in accordance with the usual procedures of Euroclear UK & Ireland Limited ("**CREST**").]
27	New Global Note:	[Yes]/[No]
28	Additional Financial Centre(s) or other special provisions relating to	[Not Applicable/[●]]

	payment dates:	
29	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes. As the Notes have more than 27 coupon payments, [a] Talon[s] may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

DISTRIBUTION

30	U.S. Selling Restrictions:	[Reg S Category 2; TEFRA C/TEFRA D/TEFRA not applicable]

Signed on behalf of the Issuer:

By: [●]
Duly authorised

PART B – OTHER INFORMATION

1 **LISTING**

(i)	Listing:	London
(ii)	Admission to trading:	Application [has been made/is expected to be made] for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [●].
(iii)	Estimate of total expenses related to admission to trading:	[●]

2 **RATINGS**

Ratings:	[The Notes to be issued have not been rated.] [The Notes to be issued [have been rated/are expected to be rated]: [S & P: [●]] [Moody's: [●]] [Fitch: [●]]]

3 **[NOTIFICATION**

The [UK Listing Authority/[●]] [has been requested to provide/has provided] the [●] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 [**INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the issue."]

5 [**Fixed Rate Notes only — YIELD**

Indication of yield:	[●]]

6 [**Floating Rate Notes only — HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

7 **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s):	[Not Applicable/[●]]. [The Notes will [also] be made eligible for CREST via the issue of CDIs representing the Notes.] [The Notes will be cleared through the CMU Service. CMU Instrument Number: [●]. Persons holding a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg (as applicable) with the CMU Operator.]

Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[●]/[Not Applicable]
Name and address of Calculation Agent:	[●]/[Not Applicable]

GENERAL INFORMATION

1 Application has been made to the UK Listing Authority for the Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on its regulated market which is a regulated market for the purpose of MiFID. It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the regulated market will be admitted separately as and when issued upon submission to the UK Listing Authority and to the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority or any other relevant authority, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 20 May 2016. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

2 The Issuers have obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment and update of the Programme and the issue and performance of the Notes. The establishment of the Programme was authorised by resolutions of the Chairman's Committee of the Board of Directors of the Bank passed on 26 September 1996 and the update of the Programme and the issue of Notes under it was authorised by (i) resolutions of the Board of Directors of the Bank passed on 26 November 2015 and (ii) resolutions of the Board of Directors of the Company dated 26 November 2015.

3 There has been no significant change in the financial position of the Lloyds Bank Group since 31 December 2015, the date to which the Lloyds Bank Group's last published audited financial information (as set out in the Bank's 2015 Annual Report) was prepared. There has been no material adverse change in the prospects of the Bank since 31 December 2015, the date to which the Bank's last published audited financial information (as set out in the Bank's 2015 Annual Report) was prepared.

4 There has been no significant change in the financial position of the Group since 31 December 2015, the date to which the Group's last published audited financial information (as set out in the Company's 2015 Annual Report) was prepared. There has been no material adverse change in the prospects of the Company since 31 December 2015, the date to which the Company's last published audited financial information (as set out in the Company's 2015 Annual Report) was prepared.

5 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*", "*Provisions for other legal actions and regulatory matters*", "*UK shareholder litigation*", "*Financial Services Compensation Scheme*", "*Tax authorities*", "*Residential mortgage repossessions*" and "*Enhanced Capital Notes ("ECNs")*" of the section "*Lloyds Banking Group and Lloyds Bank – Legal Actions and Regulatory Matters*" on pages 124 to 128 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Bank or Lloyds Bank Group.

6 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*", "*Provisions for other legal actions and regulatory matters*", "*UK shareholder litigation*", "*Financial Services Compensation Scheme*", "*Tax authorities*", "*Residential mortgage repossessions*" and "*Enhanced Capital Notes ("ECNs")*" of the section "*Lloyds Banking Group and Lloyds Bank – Legal Actions and Regulatory Matters*" on pages 124 to 128 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such

proceedings pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Company or Lloyds Banking Group.

7 Each permanent and definitive Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

8 Notes have been accepted for clearing through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). Interests in the Notes may also be held through CREST through the issuance of CDIs representing Underlying Notes. The Common Code and the International Securities Identification Number ("ISIN") and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L- 1855 Luxembourg and the address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London, EC4M 5SB. The address of any alternative clearing system will be specified in the applicable Final Terms. The address of CMU Service is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

9 CMU Notes have been accepted for clearance through the CMU Service. For persons seeking to hold a beneficial interest in CMU Notes through Euroclear or Clearstream, Luxembourg, such person will hold their interests in an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU Operator.

10 Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Issuers are aware and are able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

11 For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN and Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ:

11.1 the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);

11.2 the Agency Agreement;

11.3 the Articles of Association of the Bank;

11.4 the Bank's 2015 Annual Report and the Bank's 2014 Annual Report;

11.5 the Bank's Q1 2016 Interim Management Statement;

11.6 the Articles of Association of the Company;

11.7 the Company's 2015 Annual Report and the Company's 2014 Annual Report;

11.8 the Q1 Interim Management Statement;

11.9 each Final Terms; and

11.10 a copy of this Prospectus together with any Supplemental Prospectus or drawdown prospectus.

12 Unless otherwise stated in the applicable Final Terms, the relevant Issuer does not intend to provide post-issuance information in connection with any issue of Notes.

13 This Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.

14 Copies of the latest audited consolidated Annual Reports of the Issuers and copies of the Trust Deed will be available for inspection at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

15 PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of each of the Bank and the Company for the two financial years ended 31 December 2014 and 31 December 2015.

REGISTERED OFFICE OF THE BANK

25 Gresham Street
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Tel: +44 20 7050 6060

REGISTERED OFFICE OF THE COMPANY

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TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

ISSUING AND PAYING AGENT, CALCULATION AGENT, REGISTRAR AND TRANSFER AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

CMU LODGING AGENT AND CMU ISSUING AND PAYING AGENT

Citicorp International Limited
10/F, Citi Tower, One Bay East
83 Hoi Bun Road
Kwun Tong
Kowloon, Hong Kong

PAYING AGENT AND TRANSFER AGENT

Citigroup Global Markets Deutschland AG
Reuterweg 16 60323
Frankfurt am Main
Germany

DEALERS

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Canary Wharf
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BNP Paribas
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Citigroup Centre
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Canary Wharf
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Daiwa Capital Markets Europe Limited
5 King William Street
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Deutsche Bank AG, London Branch
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London EC2N 2DB

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60265 Frankfurt am Main
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London EC4A 2BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

Lloyds Bank plc
10 Gresham Street
London EC2V 7AE

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

Mizuho International plc
Bracken House
One Friday Street
London EC4M 9JA

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA

Nomura International plc
1 Angel Lane
London EC4R 3AB

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF

SMBC Nikko Capital Markets Limited
One New Change
London EC4M 9AF

Standard Chartered Bank
One Basinghall Avenue
London EC2V 5DD

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

UniCredit Bank AG
Arabellastrasse 12
81925 Munich
Federal Republic of Germany

Wells Fargo Securities International Limited
One Plantation Place
30 Fenchurch Street
London EC3M 3BD

AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

LEGAL ADVISERS

To the Bank and the Company as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ

To the Dealers and the Trustee as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD

To the Bank and the Company as to Scots law

CMS Cameron McKenna LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN
Scotland