



Lloyds TSB

Lloyds TSB Group plc

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

U.S.\$1,250,000,000 7.875 per cent. Non-Cumulative Preference Shares (the “USD Preference Shares”)

€500,000,000 7.875 per cent. Non-Cumulative Preference Shares (the “Euro Preference Shares”)

On 9 May 2008, Lloyds TSB Bank plc (the “Bank” or “Lloyds TSB Bank”) published a prospectus relating to the issue of Fixed Rate Perpetual Capital Securities, which constituted a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). Pursuant to subsequent final terms dated 27 May 2008, the Bank issued U.S.\$1,250,000,000 7.875 per cent. Perpetual Capital Securities and €500,000,000 7.875 per cent. Perpetual Capital Securities (the “Capital Securities”). Pursuant to the terms of the Capital Securities, by resolutions of the boards of directors of the Bank and Lloyds TSB Group plc (“Lloyds TSB” or the “Company”) dated 19 September 2008 and 12 December 2008, the Bank elected to exchange the Capital Securities for the USD Preference Shares and the Euro Preference Shares (together the “Preference Shares”) to be issued by Lloyds TSB.

Subject to the terms thereof, the Preference Shares will, from and including the Issue Date (as defined herein), accrue non-cumulative preferential dividends at a rate of 7.875 per cent. per annum, payable semi-annually in arrear on 29 May and 29 November in each year in respect of the USD Preference Shares and payable annually in arrear on 29 November in each year in respect of the Euro Preference Shares. The payment to be made on 29 May 2009 in respect of the USD Preference Shares will comprise (i) in respect of the period from (and including) 29 November 2008 to (but excluding) the Exchange Date (as defined herein), interest of U.S.\$10.938 per USD Capital Security; and (ii) in respect of the period from (and including) the Exchange Date to (but excluding) 29 May 2009, a dividend of U.S.\$28.437 per USD Preference Share, and the payment to be made on 29 November 2009 in respect of the Euro Preference Shares will comprise (x) in respect of the period from (and including) 29 November 2008 to (but excluding) the Exchange Date, interest of €11.003 per Euro Capital Security; and (y) in respect of the period from (and including) the Exchange Date to (but excluding) 29 November 2009, a dividend of €67.747 per Euro Preference Share.

Provided that the United Kingdom (“UK”) Financial Services Authority (the “FSA”) does not object and subject to certain other conditions referred to herein, the Company may redeem the Preference Shares in whole but not in part at any time on or after the First Call Date at a Redemption Price of U.S.\$1000 per Preference Share together with dividends accrued for the then-current period. See the section “Description of the Preference Shares – Redemption”.

For a description of certain matters that prospective investors should consider, see the section “Risk Factors”.

Applications will be made for (1) a certificate of approval under Article 18 of the Prospectus Directive as implemented in the UK to be issued by the FSA to the competent authority in The Netherlands and (2) the Preference Shares to be admitted to listing on the Official List of the FSA (the “Official List”) and to trading on the regulated market (the “Market”) of the London Stock Exchange plc (the “London Stock Exchange”). The Market is a regulated market for the purposes of the Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. It is expected that, subject to the satisfaction of certain conditions, Admission of the Preference Shares to the Official List and the London Stock Exchange will become effective, and that dealings in the Preference Shares will commence on 19 January 2009.

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

Prospectus dated 18 December 2008

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

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

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 Preference Shares and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. The delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of the Lloyds TSB Group (as defined herein) since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Preference Shares 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 Preference Shares (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Company that any recipient of this Prospectus or any other information supplied in connection with the Preference Shares should purchase any Preference Shares. Each investor contemplating acquiring any Preference Shares should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company. Neither this Prospectus nor any other information supplied in connection with the Preference Shares constitutes an offer of, or an invitation by or on behalf of the Company to any person to subscribe for or purchase, any Preference Shares.

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

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds”, “sterling” and “pence” are to pounds sterling. References in this Prospectus to “U.S. dollars”, “dollars” or the signs “U.S.\$” or “\$” shall be construed as references to the lawful currency for the time being of the United States of America. References in this Prospectus to “Euro” or “€” shall be construed as references to the single currency introduced pursuant to the Treaty establishing the European Economic Community, as amended by the Treaty on the European Union.

TABLE OF CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	4
FORWARD-LOOKING STATEMENTS	7
SUMMARY	8
RISK FACTORS.....	19
DESCRIPTION OF THE PREFERENCE SHARES	42
INFORMATION ON THE LLOYDS TSB GROUP	66
TAXATION	94
GENERAL INFORMATION.....	97
DEFINITIONS	99

DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 62-120 of the Company's Annual Report and Accounts 2006;
- (ii) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2007 as set out on pages 76 to 147 of the Company's Annual Report and Accounts 2007 together with the audit report thereon, including the information regarding Risk Management set out on pages 36 to 56, which is audited except for such information set out on page 51;
- (iii) pages 30 to (and including) 45 of the Company's Interim Results News Release for the half-year to 30 June 2008, published on 30 July 2008 (the "2008 Company Interim Results");
- (iv) the following items from an announcement (the "Acquisition Announcement") published by the Company on 18 September 2008 regarding the recommended acquisition of HBOS plc by the Company to be implemented by means of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006:
 - (A) From the section entitled "Introduction" to (and including) the section entitled "General" save that the following should be excluded:
 - (x) the second paragraph of the section titled "Introduction";
 - (y) the first sentence of the fifth paragraph, the sixth paragraph, the second sentence of the seventh paragraph and the eighth paragraph of the section entitled "Background to and reasons for the Acquisition"; and
 - (z) the first, tenth, twelfth and thirteenth paragraphs of the section entitled "Synergies, financial effects and pro forma financials";
 - (B) Appendix I entitled "Conditions to the Implementation of the Scheme and the Acquisition";
 - (C) Appendix II entitled "Sources and Bases of Information"; and
 - (D) Appendix III entitled "Definitions" only to the extent that such defined terms are used in the documents or information incorporated pursuant to (A) through (C) above;
- (v) the announcement (the "Acquisition and Capital Announcement") published by the Company on 13 October 2008 regarding revised terms for the acquisition of HBOS plc and raising £5.5 billion of new capital, save that the fourth and fifth paragraphs (including the italicised wording in the fifth paragraph) thereof shall not be incorporated by reference in, or form part of, this Prospectus;
- (vi) the Company's interim management statement (the "Management Statement") published on 3 November 2008;
- (vii) the following sections of the Company's circular dated 3 November 2008 sent, with certain exceptions, to its shareholders (the "Share Circular") (page references are to the relevant page(s) of the Share Circular unless the context otherwise requires):
 - page 2: the section entitled "Presentation of Information";
 - page 7: the section entitled "Expected Timetable of Principal Events";
 - pages 47-52: the section entitled "Part III, Principal Terms of the Acquisition", save for sub-sections 9 and 11 thereof;

- pages 53-56: the section entitled “Part IV, Principal Terms of the Placing and Open Offer”, save for sub-sections 5 and 6 thereof;
- pages 57-58: the section entitled “Part V, Conditions relating to the Proposed Government Funding”;
- pages 59-60: the section entitled “Part VI, Principal Terms of the Capitalisation Issue”, save for sub-sections 5 and 6 thereof;
- page 66: section 5 (“Summary of Total Income, Net of Insurance Claims, by Division”) of the section entitled “Part VII, Information on the Lloyds TSB Group”;
- pages 67-71: section 7 (“Current Trading, Trends and Prospects”) of the section entitled “Part VII, Information on the Lloyds TSB Group”;
- pages 72-74: the section entitled “Part VIII, Information on the HBOS Group”;
- pages 75-212: the section entitled “Part IX, Historical Financial Information relating to HBOS plc, Part A – Financial Information for the three years ended 31 December 2007”;
- pages 213-234: the section entitled “Part IX, Historical Financial Information relating to HBOS plc, Part B – Unaudited Interim Financial Information”;
- pages 235-237: the section entitled “Part X , Reconciliation of Accounting Policies”;
- pages 254-262: section 9.1 (“Material Contracts - Lloyds TSB Material Contracts”) of the section entitled “Part XII, Additional Information”;
- pages 271-273: the section entitled “Part XIII, HBOS Interim Management Statement 3 November 2008”; and
- for the purposes of incorporating by reference the foregoing parts of the Share Circular, defined terms used (and not otherwise defined) in such parts of the Share Circular shall have the meanings set out in : the section entitled “Definitions” on pages 274-282 of the Share Circular, which shall be deemed to be incorporated by reference herein for this purpose;

(viii) the following sections of the Company’s prospectus published on 18 November 2008 regarding the proposed placing and open offer of 2,596,653,203 open offer shares at 173.3 pence per open offer share and proposed issue of up to 7,873,180,756 consideration shares in connection with the proposed acquisition of HBOS plc (the “Lloyds TSB Placing and Open Offer Prospectus”) (page references are to the relevant page(s) of the Lloyds TSB Placing and Open Offer Prospectus unless the context otherwise requires):

- pages 42-58: sub-sections 1-12 (inclusive): (but excluding sub-section 5) and sub-section 15 of the section entitled “Part VI, Information on the Acquisition, “Part A: Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc”;
- pages 145-151: the section entitled “Part XVIII, Unaudited Pro Forma Net Assets Statement of the Enlarged Group as at 30 June 2008”;
- pages 194-197: section 8 “Material Contracts” of the section entitled “Part XXI, Additional Information”;
- pages 214-224: the section entitled “Part XXIII, Definitions” provided that such section shall only be incorporated by reference for the purposes of construing defined terms set out in: (i) the information incorporated by reference herein from the Lloyds TSB Placing and Open

Offer Prospectus (ii) the section entitled “Risk factors relating to the Lloyds TSB Group” on pages 19 to 33 herein; and (iii) the sections entitled “Lloyds TSB Group – Regulation and Supervision in the United Kingdom”, “Lloyds TSB Group – Capital Liquidity and Funding Arrangements” and “Lloyds TSB Group – Legal actions” set out in the section “Lloyds TSB Group” on pages 73 to 87 herein;

- (ix) the following sections of the prospectus published by HBOS plc on 18 November 2008 relating to the placing and open offer of 7,482,394,366 open offer shares at 113.6 pence per open offer share (the “HBOS Placing and Open Offer Prospectus”):
- sections 17.1.2, 17.1.3, 17.1.5 and 17.1.6 (“Material Contracts - HBOS”) of the section entitled “Part XXII, Additional Information”;
 - section 18.1 (“Litigation - HBOS”) (except for the second paragraph of sub-section 18.1.4) of the section entitled “Part XXII, Additional Information”; and
 - for the purposes of incorporating by reference Part IV of the Lloyds TSB Supplementary Placing and Open Offer Prospectus (as described in (xi) below) only, the section entitled Part XXIII (“Definitions”);
- (x) section 18 (“Litigation”) of Part XVIII (“Additional Information”) on pages 185 and 186 of the prospectus published by HBOS plc on 19 June 2008 relating to the 2 for 5 rights issue of 1,499,662,328 new shares at a price of 275 pence per share (the “HBOS Rights Issue Prospectus”); and
- (xi) the following sections of the supplemental prospectus published on 17 December 2008 relating to the Lloyds TSB Placing and Open Offer Prospectus (the “Supplementary Lloyds TSB Placing and Open Offer Prospectus”):
- Pages 9 – 10: Part IV (“*HBOS Trading Update*”). Defined terms used in Part IV (and not otherwise defined therein) shall have the meanings set out in the section entitled Part XXIII (“*Definitions*”) of the HBOS Placing and Open Offer Prospectus, as incorporated by reference herein;
 - Page 11: Part V (“Update on the Acquisition and the Placing and Open Offer, Payment Protection Insurance and Certain Other Matters”); and
 - Page 20: Section 3 (Significant change), of Part VII (“Additional Information”),

all of which have been previously published and filed with the Financial Services Authority and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statements contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of 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 information or documents incorporated by reference in the above listed documents does not form any part of this Prospectus unless expressly incorporated herein by reference.

The Company 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 the Company at its head office set out in “Documents Available” under the heading “General Information” on page 97 of this Prospectus.

FORWARD-LOOKING STATEMENTS

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

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

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

SUMMARY

This summary must be read as an introduction to this Prospectus. Any investment decision relating to the Preference Shares should be based on a consideration by an investor of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (each an “EEA State”), the Responsible Person may have civil liability in respect of this summary if it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Capitalised terms used herein but not otherwise defined shall have the meanings as set out in “Description of the Preference Shares” and in “Definitions” in this document.

Lloyds TSB Group

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

Lloyds TSB Group plc is the parent company of Lloyds TSB Bank plc.

Risk Factors

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

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

- general and sector-specific economic conditions;
- market fluctuations;
- market conditions resulting in material negative adjustments to the estimated fair values of financial assets;
- borrower and counterparty credit quality;
- liquidity;
- having insufficient capital resources to meet the minimum regulatory requirements;
- systemic risks;
- continuing deterioration of credit-worthiness of monoline insurers and other market counterparties;
- insurance claim rates and pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour;
- the ability to maintain credit ratings;
- operational risks including weaknesses in internal processes and procedures;
- loss of consumer confidence and reduced retail deposits;

- terrorist acts and other acts of war, and geopolitical, pandemic or other such events;
- undertakings in the Placing and Open Offer Agreement;
- risk of adverse regulatory developments or changes in government policy including costs relating to the FSCS;
- changes in taxation rates or law;
- management's ability to respond effectively to competitive pressures; and
- failure to attract or retain senior management or other key employees.

Key risks relating to the Acquisition:

- the Acquisition does not become Effective, resulting in the need to raise additional capital in an alternative manner;
- the Acquisition is being affected by way of the Scheme and will require the sanction of the Court;
- conditions to the Acquisition will not be satisfied or waived;
- not obtaining timely regulatory approvals for the Scheme and the Acquisition;
- the Acquisition may not yield the anticipated benefits, or that it may result in unanticipated costs;
- adverse tax consequences resulting from a change of ownership of HBOS; and
- change of control provisions or termination rights in HBOS Group's agreements may be triggered upon the completion of the Acquisition.

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

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

Risks relating to the Preference Shares:

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

- the Preference Shares may be redeemed at the option of the Company;
- the terms of the Preference Shares will differ from the terms of the corresponding Capital Securities;
- liquidity; and
- taxation risks.

Description of the Preference Shares

Lloyds TSB 7.875 per cent. USD Preference Shares

Capitalised terms used in this overview of the Lloyds TSB 7.875 per cent. USD Preference Shares have the same meanings as set out in “Description of the Preference Shares – Description of the Lloyds TSB 7.875 per cent. USD Preference Shares” below.

Issuer of the Preference Shares	Lloyds TSB Group plc.
The Preference Shares	U.S.\$1,250,000,000 Preference Shares of the Company, each with a nominal value of U.S.\$0.25.
Liquidation Preference (and Redemption Price)	U.S.\$1,000 per Preference Share.
Issue Date	19 January 2009.
Preference Share Dividends	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 7.875 per cent. per annum on a liquidation preference of U.S.\$1,000 per Preference Share from (and including) the Issue Date, and will be payable semi-annually in equal instalments in arrear on 29 May and 29 November in each year, save that the payment to be made on 29 May 2009 will comprise (i) in respect of the period from (and including) 29 November 2008 to (but excluding) the Exchange Date (as defined herein) interest of U.S.\$10.938 per USD Capital Security; and (ii) in respect of the period from (and including) the Exchange Date to (but excluding) 29 May 2009, a dividend of U.S.\$28.437 per USD Preference Share.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to</p>

the existence of sufficient distributable profits.

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

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

Dividend Restriction

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital, the 2004 Preference Shares or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or administration or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired), or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares other than a dividend, distribution or other payment which has been declared, paid or made by the Company on any Junior Share Capital or the 2004 Preference Shares prior to the date on which the decision to defer the relevant Preference Dividend is notified to the holders of the Preference Shares in accordance with Condition 14.

Redemption

The Preference Shares are perpetual securities and have no maturity date. However, all but not some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on or after the First

Call Date at the Redemption Price per Preference Share.

Rights upon Liquidation

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

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

Substitution

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities so issued.

Voting Rights

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

to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in the section “Description of the Preference Shares – Description of the Lloyds TSB 7.875 per cent. USD Preference Shares – 9. Voting”.

Variation of Rights

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

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

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

Form

The Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the Depositary as common depository for Euroclear and Clearstream, Luxembourg.

Initial Yield

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

Listing

London Stock Exchange.

Governing Law	Laws of Scotland.
Paying Agent	Citibank N.A., London Branch.
Depository	Common depository for Euroclear and Clearstream, Luxembourg.

Lloyds TSB 7.875 per cent. Euro Preference Shares

Capitalised terms used in this overview of the Lloyds TSB 7.875 per cent. Euro Preference Shares have the same meanings as set out in “Description of the Preference Shares – Description of the Lloyds TSB 7.875 per cent. Euro Preference Shares” below.

Issuer of the Preference Shares	Lloyds TSB Group plc.
The Preference Shares	€500,000,000 Preference Shares of the Company, each with a nominal value of U.S.\$0.25.
Liquidation Preference	€1,000 per Preference Share.
Issue Date	19 January 2009.
Preference Share Dividends	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 7.875 per cent. per annum on a liquidation preference of €1,000 per Preference Share from (and including) the Issue Date, and will be payable annually in arrear on 29 November in each year, save that the payment to be made on 29 November 2009 will comprise (i) in respect of the period from (and including) 29 November 2008 to (but excluding) the Exchange Date (as defined herein) interest of €11.003 per Euro Capital Security; and (ii) in respect of the period from (and including) the Exchange Date to (but excluding) 29 November 2009, a dividend of €67.747 per Euro Preference Share.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights</p>

of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.

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

Dividend Restriction

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital, the 2004 Preference Shares or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or administration or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired), or (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares other than a dividend, distribution or other payment which has been declared, paid or made by the Company on any Junior Share Capital or the 2004 Preference Shares prior to the date on which the decision to defer the relevant Preference Dividend is notified to the holders of the Preference Shares in accordance with Condition 14.

Redemption

The Preference Shares are perpetual securities and have no maturity date. However, all but not some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on or after the First Call Date at the Redemption Price per Preference Share.

Rights upon Liquidation

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

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

Substitution

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the Preference Shares shall be exchanged for, or redeemed by, the relevant Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities or the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Tier 1 Securities or, as the case may be, Qualifying Upper Tier 2 Securities so issued.

Voting Rights

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each

case only to speak and vote upon any such resolution) subject to the terms and conditions (including where dividends have not been paid on the previous Dividend Payment Date) as described in the section “Description of the Preference Shares – Description of the Lloyds TSB 7.875 per cent. Euro Preference Shares – 9. Voting”.

Variation of Rights

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

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

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

Form

The Preference Shares will be represented by a share warrant to bearer in the form of a single global share warrant to bearer which will be deposited with the Depositary as common depository for Euroclear and Clearstream, Luxembourg.

Initial Yield

7.875 per cent. per annum, payable annually.

Listing

London Stock Exchange and Euronext Amsterdam (as a

	secondary listing).
Governing Law	Laws of Scotland.
Paying Agent	Citibank N.A., London Branch.
Depository	Common depository for Euroclear and Clearstream, Luxembourg.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Preference Shares. Prospective investors should also note that the risks described below are not the only risks that the Company faces. The Company has described only those risks that it considers material. There may be additional risks that the Company currently considers not to be material or of which it is not currently aware, and any of these risks could have a material adverse effect on the business, operations, financial conditions or prospects of the Company, which, in turn, could have a material adverse effect on the amount of any distribution which investors will receive in respect of the Preference Shares. In addition, each of the risks highlighted below could adversely affect the trading price of the Preference Shares or the rights of investors under the Preference Shares and, as a result, investors could lose some or all of their investment.

The Lloyds TSB Group's and/or, following the Acquisition, the Enlarged Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks described in the section entitled "Risk factors relating to the Lloyds TSB Group" below. The section entitled "Risk factors relating to the Lloyds TSB Group" describes the risk factors which are considered by the Company to be material in relation to the Lloyds TSB Group and/or which will, following the Acquisition, apply to the Enlarged Group.

As stated above, the risks set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Company, or which it currently deems immaterial, may also have an adverse effect on the Lloyds TSB Group's and/or, if the Acquisition becomes effective, the Enlarged Group's operating results, financial condition and prospects or upon the Preference Shares. The information given is as of the date of this document and, except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under the section "Forward-Looking Statements" on page 7 of this Prospectus.

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

RISK FACTORS RELATING TO THE LLOYDS TSB GROUP

Terms defined in this section "Risk factors relating to the Lloyds TSB Group" shall have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.

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

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

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

Despite this intervention, the volatility and market disruption in the banking sector have continued to a degree unprecedented in recent history. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. There is increasing concern of a deep and prolonged global recession. These conditions have already adversely affected the Lloyds TSB Group's and the HBOS Group's earnings and profits. Continued general deterioration in the UK or other major economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would reduce the level of demand for, and supply of, the Lloyds TSB Group's and the Enlarged Group's products and services, lead to lower realisations and write downs and impairments of investments and negative fair value adjustments of assets and materially and adversely impact their operating results, financial condition and prospects.

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

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

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

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

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

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

The insurance and investments businesses of the Lloyds TSB Group, and of the Enlarged Group, will face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon the product and associated contract. Some of these risks are borne directly by the customer and some are borne by the insurance and investments businesses. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance and investments businesses will bear some of the cost of such guarantees and options. The insurance and investments businesses also have capital invested in the markets that are exposed to market risk. The performance of the investment markets will thus have a direct impact upon the embedded value of insurance and investments contracts and the Lloyds TSB Group's and Enlarged Group's operating results, financial condition and prospects. Adverse investment market conditions can affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

Changes in foreign exchange rates affect the value of assets and liabilities denominated in foreign currencies and may affect earnings reported by the Lloyds TSB Group and the Enlarged Group. In the Lloyds TSB Group's and the Enlarged Group's international businesses, earnings and net

assets are denominated in local currency, which will fluctuate with exchange rates in pounds sterling terms. It is difficult to predict with any accuracy changes in economic or market conditions, and such changes could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects.

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

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

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

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

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

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

Furthermore, fair value adjustments will be required in connection with the Acquisition. The pro forma net assets of the HBOS Group do not take account of any fair value adjustments that will be required as a result of the Acquisition. The Lloyds TSB Group has not yet been able to assess fully the level of fair value adjustments of the assets of the HBOS Group. These adjustments may be material. The provisional results of this valuation exercise are not expected to be available until

such time as the Lloyds TSB Group publishes its interim financial statements for the six-month period ended 30 June 2009. Given the material deterioration in the value of the financial assets since 30 June 2008, and the market outlook for the near future, as well as the different valuation methodologies for such assets, following the Acquisition, such fair valuations will differ from the book value of the HBOS Group's net assets at 30 June 2008 and such difference may be material.

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

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

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

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

substantial increases in impairment losses which could materially affect the operations, financial condition and prospects of the Enlarged Group.

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

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

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

HM Treasury's guarantee scheme for short- and medium-term debt issuance. If the Bank of England liquidity facility, HM Treasury's guarantee scheme or other sources of short-term funding are not available after that period, the Lloyds TSB Group, or the Enlarged Group, could face serious liquidity constraints, which would have a material adverse impact on its solvency.

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

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

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

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

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

The Lloyds TSB Group's life assurance and general insurance businesses in the UK are, and the Enlarged Group's life assurance and general insurance businesses will be, subject to the capital requirements prescribed by the FSA, and the Lloyds TSB Group's life and general insurance companies outside the UK are, and the Enlarged Group's will be, subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary

legislation to define broad “framework” principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. At this early stage of development, it is not possible to predict the ultimate impact of this proposed regime on the Lloyds TSB Group’s or the Enlarged Group’s capital. However, the final regime could significantly impact the regulatory capital the Lloyds TSB Group’s or the Enlarged Group’s life assurance and general insurance businesses are required to hold.

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

Against the backdrop of the lack of liquidity and high cost of funds in the interbank lending market, which is unprecedented in recent history, the Lloyds TSB Group is, and the Enlarged Group will be, subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Lloyds TSB Group interacts and the Enlarged Group will interact on a daily basis, all of which could have an adverse effect on the Lloyds TSB Group’s and the Enlarged Group’s ability to raise new funding.

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

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

The Lloyds TSB Group has, and the Enlarged Group will have, credit exposure to monoline insurers and other market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps (“CDSs”) which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Lloyds TSB Group’s and the Enlarged Group’s exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought as well as on the credit-worthiness of the relevant monoline or other insurer. In

2007 and 2008, monoline and other insurers and other market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived credit-worthiness has deteriorated significantly in 2008. Their credit-worthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Lloyds TSB Group tries, and the Enlarged Group will try, to limit and manage direct exposure to monoline or other insurers and other market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of monoline or other insurers or market counterparties or their perceived credit-worthiness deteriorates further, the Lloyds TSB Group and/or the Enlarged Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already recorded. In addition, to the extent that asset devaluations lower the credit-worthiness of monoline insurers, the Lloyds TSB Group and the Enlarged Group would be further exposed to diminished credit-worthiness of such insurers themselves. Any primary or indirect exposure to the financial condition or credit-worthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Lloyds TSB Group and/or the Enlarged Group.

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

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

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

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

UK banks recognise an asset in their balance sheets representing the value of in-force business ("VIF") in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new business, but subsequently a lower contribution from existing business, when compared to the recognition of

profits on investment contracts under IAS 39 (Financial Instruments: Recognition and Measurement). Differences between actual and expected experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best-estimate assumptions made by management, including the value of investments under management, mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations.

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

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

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

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

Operational risks, through inadequate or failed internal processes (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Lloyds TSB Group, are present in the Lloyds TSB Group's businesses and will be present in the business of the Enlarged Group. The Lloyds TSB Group's businesses and the HBOS Group's businesses are, and the Enlarged Group's business will be, dependent on their ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Following the Acquisition, the existing internal controls and procedures of the HBOS Group must be integrated with those of the Lloyds TSB Group. This is a complex and time-consuming process and there can be no assurance that delays will not occur or that systems weaknesses or inadequacies will be uncovered. Any weakness in such internal control systems and processes could have a negative impact on their results during the affected period. Furthermore, damage to the Lloyds TSB Group's or the Enlarged Group's reputation (including to customer confidence) arising from inadequacies, weaknesses or failures in such systems could have a significant adverse impact on the Lloyds TSB Group's and Enlarged Group's businesses. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or any relevant company within the Lloyds TSB Group will be unable to comply with its obligations as a company

with securities admitted to the Official List or as a supervised firm regulated by the FSA (as the case may be).

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

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

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

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

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

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

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

Under the terms of the Placing and Open Offer Agreement, the Lloyds TSB Group has provided certain undertakings aimed at ensuring that the potential acquisition by HM Treasury of Lloyds

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

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

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

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

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

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

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

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

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

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

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

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

In the United Kingdom, the FSCS was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Lloyds TSB Group and, it is expected, the Enlarged Group. The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions involving the FSCS are expected to result in a significant increase in the levies made by the FSCS on the industry. Lloyds TSB anticipates making a provision of approximately £120 million in its 2008 accounts in respect of its current obligation for the estimated interest cost on the FSCS borrowings. Going forward further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. 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 although it may be significant and the associated

costs to the Lloyds TSB Group and/or the Enlarged Group may have a material impact on its results of operations and financial condition.

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

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

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

In addition, the Lloyds TSB Group faces and the Enlarged Group will face risk where legal or regulatory proceedings or FOS or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States. A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. See the section "Lloyds TSB Group - Legal actions - Office of Foreign Assets Control". The outcome of any proceeding or complaint is inherently uncertain and could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's operations and/or financial condition, particularly if extended more broadly.

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

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

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

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

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

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

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

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

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

2 Risks relating to the Acquisition

2.1 *If the Acquisition does not become Effective, the Lloyds TSB Group will not be able to proceed with the Placing and Open Offer. In that case, the Lloyds TSB Group will be*

required to raise additional capital in an alternative manner. There is no certainty that it would be able to do so on acceptable terms or at all

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

2.2 *The Acquisition is being effected by way of the Scheme and will require the sanction of the Court. There can be no assurance that if the Scheme and the resolutions are approved by shareholders the Court will grant the Court Orders, or seek to impose modifications thereto.*

The Acquisition is being effected by means of a scheme of arrangement between HBOS and the Scheme Shareholders under sections 895 to 899 of the Companies Act which requires an application by HBOS to the Court to sanction the Scheme and confirm the reduction and cancellation of HBOS' issued and to be issued ordinary share capital. Before such Court Orders can be sought, the Acquisition requires approval (i) by the Scheme Shareholders at the Court Meeting, (ii) by the HBOS Shareholders of certain resolutions proposed at the HBOS General Meeting and (iii) by Lloyds TSB Shareholders of certain resolutions proposed at the Lloyds TSB General Meeting. There can be no assurance that if the Scheme and resolutions are approved by shareholders, the Court will grant the Court Orders, or seek to impose modifications thereto.

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

that the Conditions will be satisfied or waived and that the Acquisition will be consummated

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

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

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

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

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

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

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

The integration of the HBOS Group into the Lloyds TSB Group will be complex, expensive and present a number of challenges for the management of the Lloyds TSB Group, its staff and potentially its customers. The Lloyds TSB Group believes that the anticipated cost synergies as well as other operating efficiencies and the business growth opportunities, revenue benefits and

other benefits it expects to achieve by combining its operations with those of the HBOS Group constitute a large part of the business rationale for the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Lloyds TSB Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies have been calculated by the Lloyds TSB Group on the basis of the existing and projected cost and operating structures of the Lloyds TSB Group and the Lloyds TSB Group's estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

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

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

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

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

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

2.7 *Change of control provisions or termination rights in the HBOS Group's agreements may be triggered upon the completion of the Acquisition or upon the completion of any resulting reorganisation and may lead to adverse consequences for the Enlarged*

Group, including the loss of significant contractual rights and benefits, the termination of joint venture and/or licensing agreements

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

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

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

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

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

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

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

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

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

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

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

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

A draft Banking Bill was introduced to the United Kingdom parliament on 7 October 2008. If enacted, the Banking Bill may have significant consequences for the UK banking industry. For example, it is currently anticipated that a new "Special Resolutions Regime" will be implemented

which will give wide powers in respect of UK authorised deposit-taking institutions (such as Lloyds TSB Bank plc) to HM Treasury, the FSA and the Bank of England in circumstances where any such UK-authorised deposit-taking institution has encountered, or is likely to encounter, financial difficulties. It is also anticipated that a new administration and insolvency regime will be implemented in respect of UK-authorised deposit-taking institutions (such as Lloyds TSB Bank plc). However, given that the Banking Bill is at an early stage in the legislative process, currently it is not possible to predict with any certainty what form any legislation (if enacted) will take and the impact it will have on Lloyds TSB Bank plc and the impact it will have (if any) on the Lloyds TSB Shareholders.

Further information relating to the BSP Act and the proposed Banking Bill is set out in the section entitled "Lloyds TSB Group – Regulation and Supervision in the United Kingdom".

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

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

OTHER RISK FACTORS

4 Risk factors relating to the Preference Shares

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

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

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

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

The Company in any event may pay dividends on the Preference Shares only if and to the extent that payment can be made out of the profits of the Company available for distribution and permitted to be distributed. The Company will be the holding company of the Enlarged Group and

as such the profits which it has available for distribution will be affected by the level of ordinary and preference dividends it receives on the ordinary and preference shares which it holds in other members of the Enlarged Group. The ability of the Company to declare and pay a dividend on the Preference Shares is also subject to compliance with the then existing capital adequacy requirements of the FSA.

4.3 Dividends on the Preference Shares are non-cumulative

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

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

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

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

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

4.6 Absence of voting rights

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

4.7 Perpetual securities

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

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

Subject to confirmation from the FSA that it has no objection (if required) and to compliance with the FSA's capital adequacy requirements (to the extent they apply at the time) and United Kingdom company law requirements as to the manner of financing any redemption of redeemable

shares, the Preference Shares may be redeemed at the option of the Company in whole but not in part on or after the First Call Date at their liquidation preference.

4.9 *The terms of the Preference Shares will differ from the terms of the corresponding Capital Securities*

The terms of the Preference Shares will differ from the terms of the Capital Securities which they replace. Such differences include changes to align the terms of the Preference Shares (i) more closely with those of the existing preference shares issued by Lloyds TSB and (ii) with the Articles; and other structural changes to comply with current FSA requirements to permit the Preference Shares to be eligible to qualify as perpetual non-cumulative preference share capital for regulatory purposes.

4.10 *Liquidity*

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

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

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

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

Payments of dividends in respect of, and issues and transfers of Preference Shares may give rise to certain United Kingdom tax obligations. See the section "United Kingdom Taxation". While under current United Kingdom tax law the Company may make payment of dividends free of UK withholding tax, if the laws were to change, the Company would be under no obligation to pay any additional amounts in respect of any UK withholding taxes. The Company has received written confirmation from HMRC that there will be no stamp duty or SDRT at 1.5% on delivery of the Preference Shares to the Common Depositary for the clearance services. A transfer of Preference Shares held through a clearance service will generally be exempt from SDRT at 0.5%, unless the clearance service has elected for an alternative system for charge pursuant to section 97A of the Finance Act 1986.

DESCRIPTION OF THE PREFERENCE SHARES

The following descriptions of the terms and provisions of the Preference Shares do not purport to be complete and are subject to, and qualified in their entirety by reference to, the Articles. The principal rights attaching to the Preference Shares are as summarised below. Unless otherwise defined herein, defined terms used in this section have the meanings given to such terms under "Definitions" below.

Description of the Lloyds TSB Group 7.875% USD Preference Shares

1 General

Each Preference Share will have a nominal value of U.S.\$0.25 and will be issued fully paid with a premium of U.S.\$999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued initially in registered form and are expected to be represented by a share warrant to bearer, within the meaning of the Companies Acts, in the form of a single global share warrant to bearer (the "Global Preference Share") which will be deposited with the Depository as common depository for Euroclear and Clearstream, Luxembourg. The Company may consider the Depository to be a single holder of Preference Shares so deposited for all purposes. See the section "Provisions relating to the Preference Shares while represented by the Global Preference Share".

Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration. Subject to the Articles and Companies Acts, the bearer of any share warrant for the Preference Shares shall be deemed to be a Shareholder and shall be entitled to the same privileges and advantages as it would have had if the bearer's name had been included in the Company's register of members as the holder of the Preference Shares specified in the warrant. See the section "Provisions relating to the Preference Shares while represented by the Global Preference Share".

Upon the surrender by the bearer of a share warrant, together with the outstanding dividend coupons (if any) in respect thereof, to the Company for cancellation and delivery of an application in writing signed by the bearer, in any form which the Directors approve, requesting that the bearer of the share warrant should be registered as a Shareholder in respect of the Preference Shares included in the share warrant, the bearer of a share warrant shall be entitled to have his name entered as a member in the register of members of the Company in respect of the Preference Shares included in the share warrant and shall receive a certificate in such holder's name. However, the Company shall not be responsible for any loss or damage incurred by any person by reason of the Company entering in its register of members the name of any other person who is not the true and lawful owner of the warrant surrendered.

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

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

- (a) is in respect of Preference Shares only;
- (b) is in favour of not more than four joint transferees; and

- (c) is deposited at the office of the Company's registrar accompanied by the relevant share certificate(s) and any other evidence for which the Directors ask to prove the entitlement of the person wishing to make the transfer.

No fee is payable to the Company for transferring shares and any registration of a transfer is subject in all respects to the Articles.

Provisions relating to the Preference Shares while represented by the Global Preference Share

Payments in respect of any amount payable by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share will be made to, or to the order of, the Depository or its nominee, as holder of the Global Preference Share. The Depository shall be the only person entitled to receive payments by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share.

Except as set forth below, the persons shown in the records of Euroclear and Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System") as the holders of the Preference Share evidenced by the Global Preference Share (each an "Accountholder") will not be entitled to have Preference Shares registered in their names, will not receive or be entitled to receive physical delivery of definitive Certificates evidencing interests in the Preference Shares, and will not be considered registered owners or holders of Preference Shares thereof. Accordingly, each Accountholder must rely on the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be, to exercise any rights and obligations of a holder of Preference Shares.

The Global Preference Share will be exchangeable in whole but not in part (free of charge to the holder of the Preference Shares) for definitive certificates if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Registrar is available.

Thereupon the Company may give notice to the holders of Preference Shares of its intention to exchange the Global Preference Share for definitive certificates on or after the Exchange Date (as defined below). On or after the Exchange Date, the holder of the Global Preference Share may surrender the Global Preference Share to or to the order of the Registrar. In exchange for the Global Preference Share, the Registrar will deliver, or procure the delivery of, definitive certificates printed in accordance with any applicable legal and stock exchange requirements.

For these purposes, "Exchange Date" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Each Accountholder must look solely to Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, for its share of each payment made by the Company to the holder of the Global Preference Share and in relation to all other rights arising under the Global Preference Share, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg or such Alternative Clearing System, as the case may be. Such persons shall have no claim directly against the Company in respect of payments due on the Preference Shares for so long as the Preference Shares are represented by the Global Preference Share and such obligations of the Company will be discharged by payment to the holder of the Global Preference Share in respect of each amount so paid.

Accountholders will only be able to transfer their beneficial interests in the Preference Shares in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or the Alternative Clearing System, as the case may be.

The exchange of Preference Shares represented by a share warrant to bearer (including the Global Preference Share) for Preference Shares in registered form will also be subject to applicable United Kingdom tax laws and regulations in effect at the time of the exchange. No exchange will be made unless any resulting taxes, stamp duties or other governmental charges have been paid to the Company. Preference Shares in registered form will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.

2 Dividends

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

2.2 From and including the Issue Date, the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 7.875 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in U.S. dollars on 29 May and 29 November in each year (each a "Dividend Payment Date") when, as and if declared by the Board of Directors or the Committee. In respect of the first Dividend Payment Date on 29 May 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to U.S.\$28.437 per Preference Share. Thereafter, the Preference Dividend during any full semi-annual Dividend Period will amount to U.S.\$39.375 per Preference Share. For the purposes hereof, "liquidation preference" means, in relation to each Preference Share, an amount of U.S.\$1,000. The amount of dividend accruing in respect of any Calculation Period (other than a full semi-annual Dividend Period) will be calculated on the basis of a 360-day year of 12 months consisting of 30 days each and, in the case of an incomplete month, the number of days elapsed and, in the case of the first Dividend Period, on the assumption that U.S.\$10.938 per Preference Share to be determined on the basis of the period from, and including, 29 November 2008 to, but excluding, the Issue Date of interest had already accrued as at the Issue Date.

3 Declaration of Dividends

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

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 20 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend on the Preference Shares shall be declared and paid only in part.

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

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

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

If, at least 20 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

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

4 Payment of Dividends

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

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

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

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

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

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

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

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

5 Restrictions on Dividends and Redemption

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

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital, the 2004 Preference Shares or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or administration or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired); or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares other than a dividend, distribution or other payment which has been declared, paid or made by the Company on any Junior Share Capital or the 2004 Preference Shares prior to the date on which the decision to defer the relevant Preference Dividend is notified to the holders of the Preference Shares in accordance with Condition 14.

6 Rights upon Liquidation

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

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

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

7 Redemption

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all but not some only of the Preference Shares on or after 29 November 2013 (the "First Call Date"). The Redemption Price shall be paid on each Preference Share so redeemed.

If the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a "Redemption Notice"), which notice will be irrevocable, to the holders (in accordance with Condition 14) of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. The Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (iv) while the Preference Shares are represented by the Global Preference Share, the place or places where the holder may surrender the Global Preference Share and where payment of the Redemption Price will be made. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

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

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

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

8 Substitution

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the variation, redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with either (i) Qualifying Tier 1 Securities or (ii) Qualifying Upper Tier 2 Securities subject to all applicable regulatory requirements as

may be in force from time to time prior to the applicable Substitution Date. Subject to the above, the Company may substitute the Preference Shares at any time without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution or variation, each Preference Share shall be varied to constitute, exchanged for, or redeemed by, one Qualifying Tier 1 Security or, as the case may be, Qualifying Upper Tier 2 Security or the proceeds of redemption of the Preference Share shall be mandatorily applied to the subscription or purchase of one Qualifying Tier 1 Security or, as the case may be, Qualifying Upper Tier 2 Security so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to a variation into, substitution for or issue of the relevant securities pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are not materially less favourable to an investor than the terms of the Preference Shares (as reasonably determined by the Company).

9 Voting

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

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

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

The bearer of a share warrant in respect of Preference Shares shall not be entitled to attend or vote, personally or by proxy, unless the share warrant has been deposited with the Company and the Company has delivered a certificate in exchange. Subject as described above, the certificate shall entitle such person, either personally or by proxy, to attend and vote at any Shareholders' meeting at which the holder is entitled to attend and vote held within three months of the date of the certificate and prior to the return of the certificate to the Company, in the same way as if the holder were the registered holder of Preference Shares specified in the certificate.

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

10 Purchase of own shares

Subject to the Articles, the provisions of the Companies Acts, all other laws and regulations applying to the Company and the rights conferred on any other class of shares of the Company described under "Restrictions on Dividends and Redemption" above and confirmation from the FSA that it has no objection to the purchase (for so long as the Company is required to obtain such confirmation), the

Company may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender upon such terms and conditions as the Board of Directors or the Committee may determine. The Company will not be required to select the shares to be purchased rateably or in any particular manner as between the holders of Preference Shares or as between them and the holders of shares of any other class (whether or not the Preference Shares rank prior to such other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

11 Untraced shareholders

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

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

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

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

12 Form and Denomination

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

13 Variation of Rights

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

at any adjourned meeting where this quorum requirement is not met, where any two holders present in person or by proxy will constitute a quorum.

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

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

14 Notices

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

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

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

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

In addition, any notice to the bearer of any warrant or any other person who holds or is interested in the Preference Shares in bearer form or any related coupons or talons (if any) shall be sufficiently given if advertised in such newspaper or newspapers as the Directors, in their discretion, shall consider appropriate or by such other means as the Directors consider appropriate. If notice is given by newspaper advertisement, it shall be deemed given on the day when the advertisement appears.

15 No Additional Amounts

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

16 Governing Law

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

17 Registrar and Paying Agent

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

Citibank N.A., London Branch shall act as Paying Agent.

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

18 Further Issues

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

19 Definitions

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

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

"Business Day" means (i) a day other than a Saturday or Sunday on which Euroclear and Clearstream, Luxembourg or any other relevant clearing system are operating and (ii) a day on which banks and foreign exchange markets are open for general business in London and New York;

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

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

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

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

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

“**Depository**” means Citibank N.A., London Branch;

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

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

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

“**Euroclear**” means Euroclear Bank S.A./N.V. or any successor thereof;

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

“**Issue Date**” means 19 January 2009;

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

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

“**Other Tier 1 Securities**” means any securities which are Tier 1 Capital of the Company and which rank on a winding-up of the Company or in respect of a distribution or payment of dividends or any other payments thereon, pari passu with the most senior preference share capital of the Company, the 6.35 per cent. Step-Up Perpetual Capital Securities callable in 2013, the 6.90 per cent. Perpetual Capital Securities callable 2007, the 7.375 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2012, the 7.834 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2015 and the 4.385 per cent. Step-Up Perpetual Capital Securities callable 2017;

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

“**Paying Agent**” means Citibank N.A., London Branch;

“**Preference Shares**” means the U.S.\$1,250,000,000 in aggregate value of 7.875 per cent. Non-Cumulative Callable USD Preference Shares of the Company;

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

(a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by U.S.\$1,000, (5) comply with the then current requirements of the FSA in relation to Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and

(b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

“Qualifying Upper Tier 2 Securities” means securities issued directly or indirectly by the Company that:

(a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) they provide for the same rate of return, (3) they shall rank senior to, or *pari passu* with, the Preference Shares; and (4) such securities shall preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid;

(b) do not have terms such that (x) the Company would not, as a result of the Qualifying Upper Tier 2 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Upper Tier 2 Securities would constitute “equity holders” of the Company for United Kingdom tax purposes; and

(c) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

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

“Redemption Price” means the liquidation preference of U.S.\$1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none accrued, assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

“Registrar” means the Company’s company secretarial department or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

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

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

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

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

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

Description of the Lloyds TSB Group 7.875% Euro Preference Shares

1 General

Each Preference Share will have a nominal value of €0.25 and will be issued fully paid with a premium of €999.75 per Preference Share. The Preference Shares constitute a class of preference share capital in the Company and will be issued initially in registered form and are expected to be represented by a share warrant to bearer, within the meaning of the Companies Acts, in the form of a single global share warrant to bearer (the "Global Preference Share") which will be deposited with the Depositary as common depositary for Euroclear and Clearstream, Luxembourg. The Company may consider the Depositary to be a single holder of Preference Shares so deposited for all purposes. See the section "Provisions relating to the Preference Shares while represented by the Global Preference Share".

Title to Preference Shares represented by a share warrant to bearer will pass by delivery of the relevant bearer share warrant without any written transfer and without registration. Subject to the Articles and Companies Acts, the bearer of any share warrant for the Preference Shares shall be deemed to be a Shareholder and shall be entitled to the same privileges and advantages as it would have had if the bearer's name had been included in the Company's register of members as the holder of the Preference Shares specified in the warrant. See the section "Provisions relating to the Preference Shares while represented by the Global Preference Share".

Upon the surrender by the bearer of a share warrant, together with the outstanding dividend coupons (if any) in respect thereof, to the Company for cancellation and delivery of an application in writing signed by the bearer, in any form which the Directors approve, requesting that the bearer of the share warrant should be registered as a Shareholder in respect of the Preference Shares included in the share warrant, the bearer of a share warrant shall be entitled to have his name entered as a member in the register of members of the Company in respect of the Preference Shares included in the share warrant and shall receive a certificate in such holder's name. However, the Company shall not be responsible for any loss or damage incurred by any person by reason of the Company entering in its register of members the name of any other person who is not the true and lawful owner of the warrant surrendered.

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

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

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

No fee is payable to the Company for transferring shares and any registration of a transfer is subject in all respects to the Articles.

Provisions relating to the Preference Shares while represented by the Global Preference Share

Payments in respect of any amount payable by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share will be made to, or to the order of, the Depository or its nominee, as holder of the Global Preference Share. The Depository shall be the only person entitled to receive payments by way of dividend or on redemption in respect of the Preference Shares represented by the Global Preference Share.

Except as set forth below, the persons shown in the records of Euroclear and Clearstream, Luxembourg or any other clearing system (an "Alternative Clearing System") as the holders of the Preference Share evidenced by the Global Preference Share (each an "Accountholder") will not be entitled to have Preference Shares registered in their names, will not receive or be entitled to receive physical delivery of definitive Certificates evidencing interests in the Preference Shares, and will not be considered registered owners or holders of Preference Shares thereof. Accordingly, each Accountholder must rely on the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be, to exercise any rights and obligations of a holder of Preference Shares.

The Global Preference Share will be exchangeable in whole but not in part (free of charge to the holder of the Preference Shares) for definitive certificates if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Registrar is available.

Thereupon the Company may give notice to the holders of Preference Shares of its intention to exchange the Global Preference Share for definitive certificates on or after the Exchange Date (as defined below). On or after the Exchange Date, the holder of the Global Preference Share may surrender the Global Preference Share to or to the order of the Registrar. In exchange for the Global Preference Share, the Registrar will deliver, or procure the delivery of, definitive certificates printed in accordance with any applicable legal and stock exchange requirements.

For these purposes, "Exchange Date" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Each Accountholder must look solely to Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, for its share of each payment made by the Company to the holder of the Global Preference Share and in relation to all other rights arising under the Global Preference Share, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg or such Alternative Clearing System, as the case may be. Such persons shall have no claim directly against the Company in respect of payments due on the Preference Shares for so long as the Preference Shares are represented by the Global Preference Share and such obligations of the Company will be discharged by payment to the holder of the Global Preference Share in respect of each amount so paid.

Accountholders will only be able to transfer their beneficial interests in the Preference Shares in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or the Alternative Clearing System, as the case may be.

The exchange of Preference Shares represented by a share warrant to bearer (including the Global Preference Share) for Preference Shares in registered form will also be subject to applicable United Kingdom tax laws and regulations in effect at the time of the exchange. No exchange will be made unless any resulting taxes, stamp duties or other governmental charges have been paid to the Company. Preference Shares in registered form will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.

2 Dividends

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

2.2 From and including the Issue Date, the Preference Dividend shall, save as provided below in respect of the first Preference Dividend, accrue at a rate of 7.875 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, annually in arrear in Euros on 29 November in each year (a "Dividend Payment Date") when, as and if declared by the Board of Directors or the Committee. In respect of the first Dividend Payment Date on 29 November 2009, the dividend payable will, subject to the limitations and qualifications set out herein and at the sole discretion of the Board of Directors or the Committee, amount to €67.747 per Preference Share. Thereafter, the Preference Dividend during any full annual Dividend Period will amount to €78.75 per Preference Share. For the purposes hereof, "liquidation preference" means, in relation to each Preference Share, an amount of €1,000. The amount of dividend accruing in respect of any Calculation Period (other than a full annual Dividend Period) will be calculated on the basis of the actual number of days in the period from (and including) the most recent Dividend Payment Date to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Dividend Payment Date to (but excluding) the next scheduled Dividend Payment Date, the number of days elapsed and, in the case of the first Dividend Period, on the assumption that €11.003 per Preference Share to be determined on the basis of the period from, and including, 29 November 2008 to, but excluding, the Issue Date of interest had already accrued as at the Issue Date.

3 Declaration of Dividends

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

- (a) declare and pay in full Preference Dividends on the relevant Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 20 Business Days prior to the relevant Dividend Payment Date that no Preference Dividend shall be declared and paid or that a Preference Dividend on the Preference Shares shall be declared and paid only in part.

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

If, however, in the opinion of the Board of Directors or the Committee, the payment of any Preference Dividend would breach or cause a breach of the capital adequacy requirements of the FSA that apply at

that time to the Company and/or any of its subsidiaries, then no Preference Dividend shall be declared or paid unless the FSA confirms that it has no objection to such declaration or payment.

If, at least 20 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of Preference Dividends and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced Preference Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

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

4 Payment of Dividends

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

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

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

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

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

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

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

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

5 Restrictions on Dividends and Redemption

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

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital, the 2004 Preference Shares or any Other Tier 1 Securities (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking on a return of assets on a winding-up or administration or in respect of a distribution or payment of dividends and/or any other amounts thereunder to those shares or securities being redeemed, purchased or acquired); or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares other than a dividend, distribution or other payment which has been declared, paid or made by the Company on any Junior Share Capital or the 2004 Preference Shares prior to the date on which the decision to defer the relevant Preference Dividend is notified to the holders of the Preference Shares in accordance with Condition 14.

6 Rights upon Liquidation

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

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

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

proceeds consists entirely of cash, will not be deemed a return of capital in respect of the Company's liquidation, dissolution or winding-up.

7 Redemption

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), to the provisions of the Companies Acts and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all but not some only of the Preference Shares on or after 29 November 2013 (the "First Call Date"). The Redemption Price shall be paid on each Preference Share so redeemed.

If the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a "Redemption Notice"), which notice will be irrevocable, to the holders (in accordance with Condition 14) of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. The Redemption Notice will specify (i) the Redemption Date, (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid), (iii) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and where payment of the Redemption Price will be made and (iv) while the Preference Shares are represented by the Global Preference Share, the place or places where the holder may surrender the Global Preference Share and where payment of the Redemption Price will be made. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

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

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

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

8 Substitution

Subject to the Articles (including the restrictions described under "Restrictions on Dividends and Redemption" above), the provisions of the Companies Acts and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the variation, redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with either (i) Qualifying Tier 1 Securities or (ii) Qualifying Upper Tier 2 Securities subject to all applicable regulatory requirements as may be in force from time to time prior to the applicable Substitution Date. Subject to the above, the Company may substitute the Preference Shares at any time without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution or variation, each Preference Share shall be varied to constitute, exchanged for, or redeemed by, one Qualifying Tier 1 Security or, as the case may be, Qualifying Upper Tier 2 Security

or the proceeds of redemption of the Preference Share shall be mandatorily applied to the subscription or purchase of one Qualifying Tier 1 Security or, as the case may be, Qualifying Upper Tier 2 Security so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to a variation into, substitution for or issue of the relevant securities pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are not materially less favourable to an investor than the terms of the Preference Shares (as reasonably determined by the Company).

9 Voting

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

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

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

The bearer of a share warrant in respect of Preference Shares shall not be entitled to attend or vote, personally or by proxy, unless the share warrant has been deposited with the Company and the Company has delivered a certificate in exchange. Subject as described above, the certificate shall entitle such person, either personally or by proxy, to attend and vote at any Shareholders' meeting at which the holder is entitled to attend and vote held within three months of the date of the certificate and prior to the return of the certificate to the Company, in the same way as if the holder were the registered holder of Preference Shares specified in the certificate.

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

10 Purchase of own shares

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

other shares). Any such Preference Shares purchased by or on behalf of the Company may be held, reissued, resold or, at the option of the Company, cancelled by the Company.

11 Untraced shareholders

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

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

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

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

12 Form and Denomination

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

13 Variation of Rights

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

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of an extraordinary resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or

increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, in priority to the Preference Shares.

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

14 Notices

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

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

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

In addition, for so long as the Preference Shares are listed and admitted to trading on any stock exchange, notices shall be given in accordance with any requirements of such exchange.

In addition, any notice to the bearer of any warrant or any other person who holds or is interested in the Preference Shares in bearer form or any related coupons or talons (if any) shall be sufficiently given if advertised in such newspaper or newspapers as the Directors, in their discretion, shall consider appropriate or by such other means as the Directors consider appropriate. If notice is given by newspaper advertisement, it shall be deemed given on the day when the advertisement appears.

15 No Additional Amounts

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

16 Governing Law

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

17 Registrar and Paying Agent

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

Citibank N.A., London Branch shall act as Paying Agent.

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

18 Further Issues

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

19 Definitions

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

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

"Business Day" means, (i) a day other than a Saturday or Sunday on which Euroclear and Clearstream, Luxembourg or any other relevant clearing system are operating, (ii) a day on which banks and foreign exchange markets are open for general business in London; and (iii) (if payment is to be made on that day) a day on which the TARGET System is operating;

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

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

"Clearstream, Luxembourg" means Clearstream Bank, société anonyme;

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

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

“**Depository**” means Citibank N.A., London Branch;

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

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

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

“**Euroclear**” means Euroclear Bank S.A./N.V. or any successor thereof;

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

“**Issue Date**” means 19 January 2009;

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

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

“**Other Tier 1 Securities**” means any securities which are Tier 1 Capital of the Company and which rank on a winding-up of the Company or in respect of a distribution or payment of dividends or any other payments thereon, pari passu with the most senior preference share capital of the Company, the 6.35 per cent. Step-Up Perpetual Capital Securities callable in 2013, the 6.90 per cent. Perpetual Capital Securities callable 2007, the 7.375 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2012, the 7.834 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2015 and the 4.385 per cent. Step-Up Perpetual Capital Securities callable 2017;

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

“**Paying Agent**” means Citibank N.A., London Branch;

“**Preference Shares**” means the €500,000,000 in aggregate value of 7.875 per cent. Non-Cumulative Callable Euro Preference Shares of the Company;

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

(a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by U.S.\$1,000, (5) comply with the then current requirements of the FSA in relation to Tier 1 Capital, and (6) preserve any existing rights

under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and

(b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

“Qualifying Upper Tier 2 Securities” means securities issued directly or indirectly by the Company that:

(a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) they provide for the same rate of return, (3) they shall rank senior to, or *pari passu* with, the Preference Shares; and (4) such securities shall preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid;

(b) do not have terms such that (x) the Company would not, as a result of the Qualifying Upper Tier 2 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Upper Tier 2 Securities would constitute “equity holders” of the Company for United Kingdom tax purposes; and

(c) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange;

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

“Redemption Price” means the liquidation preference of U.S.\$1,000 per Preference Share to be redeemed together with any dividends on such Preference Shares accrued but unpaid since the immediately preceding Dividend Payment Date (or, if none accrued, assumed in accordance with paragraph 2.2 above to be accrued, but unpaid since the Issue Date);

“Registrar” means the Company’s company secretarial department or any other entity appointed by the Company and notified by the Company to the holders of the Preference Shares to perform the function as registrar in respect of the Preference Shares;

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

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

“Tier 1 Capital” has the meaning given to it by the FSA from Time to Time;

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

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

INFORMATION ON THE LLOYDS TSB GROUP

Terms defined in the sub-sections entitled “Regulation and Supervision in the United Kingdom”, “Capital Liquidity and Funding Arrangements” and “Legal actions” below have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.

The Company was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to its present name.

The principal legislation under which the Company operates, and pursuant to which the Preference Shares will be created, are the Companies Act 1985 and 2006 and regulations made thereunder.

The Company is domiciled in Scotland. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44(0)20 7626 1500) and its registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH.

Overview

The Lloyds TSB Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. For the six months ended 30 June 2008, Lloyds TSB had revenues of £4.6 billion and net income of £0.6 billion. As at 30 June 2008, Lloyds TSB Group had total assets of £367.8 billion and shareholders' equity of £10.8 billion. As at 30 June 2008, the risk asset ratios were 11.3 per cent. for total capital, 8.6 per cent. for Tier 1 capital and 6.2 per cent. for core Tier 1 capital.

The Lloyds TSB Group was formed in 1995 following the merger of Lloyds Bank and TSB Group plc, and now comprises the Lloyds TSB brand, along with Cheltenham & Gloucester, one of the largest mortgage providers in the UK, and Scottish Widows, one of the UK's largest providers of life, pensions and investment products.

Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Services provided by UK Retail Banking include the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services. Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB Group's activities in financial markets through its treasury function and provides banking and financial services overseas.

The operations of Lloyds TSB Group in the UK are conducted through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester. C&G is Lloyds TSB Group's specialist mortgage arranger. International business is conducted mainly in the US and continental Europe. Lloyds TSB Group's services in these countries are offered largely through branches of Lloyds TSB Bank. Lloyds TSB Group also offers offshore banking facilities in a number of countries.

History and development of Lloyds TSB

The history of the Lloyds TSB Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was

incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society.

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc with Lloyds Bank Plc, which was subsequently renamed Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, the Lloyds TSB Group acquired Scottish Widows' Fund and Life Assurance Society. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned the Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

In more recent years, the Lloyds TSB Group has disposed of a number of its non-core operations, as part of the process of managing its portfolio of businesses to focus on its core markets. These disposals have resulted in a significant reduction in the size of the Lloyds TSB Group's international business.

Strategy

In an environment of strong competition, the Lloyds TSB Group believes that shareholder value can best be achieved by:

- focusing on markets where it can build and sustain competitive advantage;
- developing business strategies which are founded on being profitably different in the way it creates customer value; and
- building a high-performance organisation focused on the right goals and the best possible execution of the Lloyds TSB Group's strategies.

Reflecting this, in 2003, the Lloyds TSB Group put in place a three-phase strategy. In phase 1, the Lloyds TSB Group focused on enhancing the quality of its earnings by exiting businesses which were not regarded as core or which added unnecessary volatility to earnings. During this phase, the Lloyds TSB Group divested businesses in New Zealand and Latin America, markets in which it did not expect to be able to build and sustain competitive advantage. In phase 2, the Lloyds TSB Group focused on accelerating growth by deepening its customer relationships, improving productivity and building competitive advantage through enhanced capabilities. The Lloyds TSB Group also remained alert for opportunities to enter into phase 3, i.e. an acquisition that complemented its existing organic strategies. The HBOS acquisition constitutes the final phase of this strategy.

Relationships were and still are critical to the Lloyds TSB Group's strategy. The Lloyds TSB Group has chosen to focus on building deep, long-lasting relationships with its customers in order to deliver high quality, sustainable results over time. By building deep relationships, the Lloyds TSB Group aims to grow revenues and achieve a lower risk profile.

Markets

The Lloyds TSB Group focuses on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, through a combination of organic growth and acquisitions, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to being one of the market leaders. The Lloyds TSB Group believes that it has good potential within its existing franchise to grow by meeting more of its customers' needs as well as through adding new customers to the franchise.

Strategy

The Lloyds TSB Group's strategy is based on a belief that sustained growth comes from simultaneously focusing on (i) building strong customer relationships, (ii) continuous productivity improvement and (iii) strong capital management.

Strong customer relationships

In an increasingly competitive financial services market, and with customers able to exercise choice amongst alternative providers, shareholder value creation is closely linked to customer value creation. Shareholder value can only be created by attracting and retaining customers and winning a greater share of their financial services business. Across its main businesses, Lloyds TSB Group has strong core banking franchises, based on building strong customer relationships. The Lloyds TSB Group's strategy is focused on being differentiated in the creation of customer value to win a bigger share of its customers' total financial services spend.

Continuous productivity improvement

Superior economic profit growth also requires a continuous focus on productivity improvement, which drives both improved customer service and cost reduction. In recent years, the Lloyds TSB Group has been building a set of capabilities in "six sigma" (error reduction), "lean manufacturing" (operations efficiency) and procurement. Alongside those capabilities, the Lloyds TSB Group applies an "income growth must exceed cost growth" discipline in setting goals for each business, requiring a wider gap between income growth and cost growth for lower growth/return businesses than for higher growth/return businesses.

The results have been evidenced across all three divisions in much reduced error rates in key processes, growing levels of income per employee and falling unit costs, without impacting investment in future growth. Further improvements in the Lloyds TSB Group's cost: income ratio are expected as these capabilities and disciplines are extended further.

Capital and risk management

Lloyds TSB Group measures value internally by economic profit growth, a measure of financial performance which signals where value is created or destroyed. It has developed a framework to measure economic equity requirements across all its businesses, taking into account market, credit, insurance, business and operational risk. Using economic profit as a key performance measure enables the Lloyds TSB Group to understand which strategies, products, channels and customer segments are destroying value and which are creating the most value and to make better capital allocation decisions as a result.

The application of these economic profit disciplines, alongside goal-setting linked to ensuring that revenue growth constantly exceeds cost growth, has already been reflected in a significant improvement in the capital efficiency of the Lloyds TSB Group's Insurance and Investments division and by a shift in business mix towards sectors offering higher risk-adjusted returns in wholesale banking. By the continued rigorous application of these disciplines at every level, the Lloyds TSB Group expects to further improve capital efficiency whilst remaining strongly capitalised.

It is the Lloyds TSB Group's belief that the relationship focused strategy has demonstrated its effectiveness in generating sustainable, high quality results. The prudent approach to risk means that the Lloyds TSB Group believes that it has relatively limited exposure to assets affected by capital market uncertainties and continues to retain a strong liquidity position.

Principal Activities

The Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking.

UK Retail Banking

UK Retail Banking provides banking, financial services, mortgages and private banking to some 16 million personal customers through the Lloyds TSB Group's multi-channel distribution capabilities.

Branches

The Lloyds TSB Group provides wide-reaching geographic branch coverage in England, Scotland and Wales, through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G.

Internet banking

Internet banking provides online banking facilities for personal customers. Some 4.9 million customers have registered to use the Lloyds TSB Group's internet banking services. For the half year to 30 June 2008, these customers were conducting on average more than 75 million actions per month online, a 16 per cent. increase on the same period in 2007.

Telephone banking

As at 30 June 2008, some 5.5 million customers had registered to use the services of PhoneBank and the automated voice response service, PhoneBank Express. Lloyds TSB's telephone banking centres handled some 39 million calls during the first six months of 2008.

Cash machines

The Lloyds TSB Group has one of the largest cash machine networks of any leading banking group in the UK and, personal customers of Lloyds TSB Bank and Lloyds TSB Scotland are able to withdraw cash and check balances through over 4,100 ATMs at branches and external locations around the country. In addition, UK Retail Banking's personal customers have access to over 65,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

Current accounts

Lloyds TSB Bank and Lloyds TSB Scotland offer a wide range of current accounts, including interest-bearing current accounts and a range of added value accounts.

Savings accounts

Lloyds TSB Bank, Lloyds TSB Scotland and C&G offer a wide range of savings accounts and retail investments through their branch networks and a postal investment centre.

Personal loans

Lloyds TSB Bank and Lloyds TSB Scotland offer a range of personal loans through their branch networks and directly to the customer via the internet and telephone.

Cards

The Lloyds TSB Group provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. The Lloyds TSB Group is a member of both the VISA and MasterCard payment systems and has access to the American Express payment system.

Mortgages

C&G is the Lloyds TSB Group's specialist residential mortgage arranger, offering a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, Mortgage Direct. Lloyds TSB Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. The Lloyds TSB Group is one of the largest residential mortgage lenders in the UK on the basis of outstanding balances, with mortgages outstanding at 30 June 2008 of £109.3 billion.

UK Wealth Management

Wealth Management provides financial planning and advice for the Lloyds TSB Group's affluent customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert advice is provided through a large population of the Lloyds TSB Group's financial advisors who can be accessed via the retail branch network and Private Banking offices throughout the United Kingdom. Customers are also provided with access to relationship banking as part of Lloyds TSB Private Banking, one of the largest private banks in the UK.

The UK Competition Commission's investigation of payment protection (also known as repayment) insurance could affect the distribution and pricing of this product across the industry. Further details as to the investigations are set out under the heading "Legal actions – 1. UK Competition Commission investigation of payment protection insurance" below.

Insurance and Investments

Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management products and services through the Lloyds TSB, Scottish Widows and SWIP brands.

Life assurance, pensions and investments

Scottish Widows is the Lloyds TSB Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via a direct sales force, telephone and the internet. The Scottish Widows brand is the main brand for new sales of Lloyds TSB Group's life, pensions, Open Ended Investment Companies ("OEICs") and other long-term savings products.

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

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

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

During 2007, Lloyds TSB Group sold Abbey Life, the UK life operation which was closed to new business in 2000.

General insurance

Lloyds TSB Insurance provides general insurance through the retail branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G, and through a direct telephone operation and the internet. Lloyds TSB Insurance is one of the leading distributors of household insurance in the UK.

Scottish Widows Investment Partnership

Scottish Widows Investment Partnership manages funds for Lloyds TSB Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas.

Wholesale and International Banking

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

During 2007, the Lloyds TSB Group completed the sale of Lloyds TSB Registrars and The Dutton-Forshaw Group, two of Wholesale and International Banking's businesses.

Corporate Markets

Combining the respective strengths of some 3,000 people in Corporate Banking and Products and Markets, Corporate Markets plays an integral role in leveraging and expanding the Lloyds TSB Group's customer franchise and building deep, long-lasting relationships with around 26,000 corporate customers.

Corporate Banking manages the core customer franchise, providing a relationship-based financial and advisory service to the corporate market place. This is delivered through dedicated regional teams throughout the UK and key strategic locations abroad, including New York. Customers have access to expert advice and a broad range of financial solutions. Relationship Managers act as a conduit to product and service partners in Corporate Markets and other parts of the Lloyds TSB Group. Lloyds Development Capital, the Lloyds TSB Group's captive private equity arm, also reports through the Corporate Bank.

Products and Markets is where the specialist product capability resides for both the corporate relationship customers and certain other customers of the Lloyds TSB Group. It offers customers a wide range of finance and capital solutions, and also provides tailored risk management solutions and structured solutions across all areas of risk. These areas include foreign exchange, interest rates, credit, inflation and commodities on behalf of the Lloyds TSB Group. Additionally, Products and Markets fulfils the treasury role for Lloyds TSB Group including the management of balance sheet liquidity.

Commercial Banking

Commercial Banking serves nearly one million customers across the UK from one-person start-ups to large, established enterprises. The expanded business focuses on providing banking facilities and solutions to customers with business turnover up to £15 million per annum, and incorporates the invoice discounting and factoring subsidiary, Lloyds TSB Commercial Finance, through which Lloyds TSB Group provides specialised working capital finance for its customers. Commercial Banking continues to build its market share of high value customers as a result of continued progress in attracting customers "switching" from other financial services providers. The main activity of The Agricultural Mortgage Corporation is to provide long-term finance to the agricultural sector.

Asset Finance

The Lloyds TSB Group's asset finance businesses provide individuals and companies with specialist personal lending, store credit and finance, including motor finance. Black Horse Consumer Finance,

including the Retail and Motor businesses, acquire largely non-Lloyds TSB franchise customers through Point of Sale (POS) credit creating the opportunity to sell Black Horse personal loans subsequently. Asset Finance is also the Group's provider of contract hire vehicles through Lloyds TSB Autolease. Asset Finance has approximately 3,650 staff throughout the UK, over 1.7 million individual customers and relationships with some 16,800 companies and small businesses.

International Banking

Lloyds TSB Group has continued to shape its international network to support its UK operations. Its overseas banking operations include offices in the UK, the Channel Islands, the Isle of Man, Dubai, Hong Kong, Spain, France, Switzerland, Luxembourg, Belgium, Netherlands, Monaco, Gibraltar, Cyprus, South Africa, Japan, Singapore, Malaysia, China and the US. The business provides a wide range of private and retail banking, wealth management and expatriate services to local island residents, UK expatriates, foreign nationals and to other customers and also serves the corporate and institutional market in a number of these locations.

Competitive Environment

The Lloyds TSB Group's key markets are in the UK, in both the retail and wholesale financial services sectors, where the markets are relatively mature. Retail banking markets have shown strong rates of growth in recent years, but have slowed in 2008 as a result of low consumer confidence, a squeeze on household spending power, the withdrawal of some competitors from the mortgage market and a sharply lower housing market. The markets for life, pensions and insurance products are expected to grow over time in a number of key areas although the weakness of stock markets in 2008 will in the short term limit demand for equity-based products. The fragmented nature of the life, pensions and insurance market in the UK has resulted in some consolidation within certain product sectors, although the overall share of new business of the top ten providers fell slightly in 2007. In the general insurance sector, the long-term trend of consolidation amongst underwriters and brokers continues, while distribution remains fragmented through growth in the number of affinity partnerships. Wholesale markets showed strong growth until mid-2007, since when the ongoing dislocation of global capital markets and growing concern about economic prospects has had a severe impact. Slower growth is now evident and this trend is likely to intensify going forward, together with a return to more normal levels of bad debt from recent cyclical lows.

The Lloyds TSB Group's competitors include all the major financial services companies operating in the UK. In the retail banking market, the Lloyds TSB 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 providers, although some of these have had to reduce their business activity or exit as a result of capital and funding constraints. In the wholesale banking market, the Lloyds TSB Group competes with both UK and foreign financial institutions; in asset finance the main competition comes from other banks and specialised asset finance providers; and in the insurance market, competitors include bancassurance, life assurance and general insurance companies operating in the UK.

The current dislocation in global capital markets has been the most severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment for many years and individual institutions have faced varying degrees of stress. Many competitors have reacted to short-term funding concerns by withdrawing products and/or tightening lending criteria. Lloyds TSB Group expects these conditions to continue throughout the remainder of 2008 and in 2009.

Regulation and Supervision in the United Kingdom

Overview of UK Regulation

The Lloyds TSB Group and the HBOS Group are subject to the financial regulation and supervisory regime in the United Kingdom. Non-financial companies within the Lloyds TSB Group and the HBOS Group (such as investment and insurance companies) are also subject to their appropriate regulatory and supervisory regimes. Responsibility for banking, insurance, investment and other financial services supervision in the United Kingdom rests with the FSA. The FSA's powers and responsibilities are derived from the FSMA. The FSA has responsibility for: (i) regulating and authorising all businesses carrying on regulated activities in the UK (which currently includes all forms of deposit taking, investment activity, mortgages and insurance business); (ii) regulating and authorising unit trusts and open ended investment companies; and (iii) recognising and supervising markets and investment exchanges. The Lloyds TSB Group's ability to conduct its business is dependent upon its retention of its regulatory licences with the FSA.

The FSA is required to observe and pursue four statutory objectives: (i) to maintain confidence in the UK financial system; (ii) to promote public understanding of the financial system; (iii) to secure the right degree of protection for consumers; and (iv) to reduce financial crime.

Banking supervision in the UK

Deposit taking business is a regulated activity under the FSMA. The FSA is broadly empowered to request information from and give directions to banks and also sets standards that serve as guidelines for banks under its supervision. Each bank is obliged to submit regular reports to the FSA which provide material for supervisory assessment. The approach adopted by the FSA in supervising banks is risk based with the objectives of: (i) systematic assessment of whether a bank meets FSMA authorisation criteria; (ii) understanding the quality of the management and the risks banks face; (iii) using appropriate supervisory tools to identify risks such as skilled persons' reports on internal controls; and (iv) allocating resources proportionate to risk by focusing on banks with a high risk profile.

The FSA may also obtain independent confirmation from skilled persons as to the accuracy of accounting records and prudential returns and the adequacy of internal controls.

European Commission Directive on Consumer Credit

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council of the European Union on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers.

This proposal has now become the Consumer Credit Directive, the text of which was finally approved by the European Parliament in January 2008 after many years of negotiation. The Directive was approved by the European Council in April 2008 and published in the Official Journal on 22 May 2008. The UK Government has a period of two years in which to implement the Directive, meaning that it is currently estimated that this will happen sometime in the spring of 2010.

In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008 the Advanced Measurement Approach for Operational Risk.

Insurance business supervision

Effecting and carrying out contracts of insurance is a regulated activity under the FSMA. The FSA's powers in regulating insurance business are equivalent to those described in relation to the supervision of banking business.

Financial services supervision

Aspects of the Lloyds TSB Group's and the HBOS Group's business activities such as advising on, dealing in or managing investments such as bonds, money market derivative products and equities and also the sale of personal financial services and investments, undertaken through bank branches and other business channels (e.g. telephone and online banking), are regulated by the FSA.

Accordingly, companies within the Lloyds TSB Group and the HBOS Group carrying on these businesses are subject to the regulation of the FSA. FSA regulation on mortgages and mortgage advice was introduced on 31 October 2004, with sales of general insurance by intermediaries coming under FSA regulation on 14 January 2005.

Financial Services Compensation Scheme

FSMA introduced the Financial Services Compensation Scheme which combines the functions of previous compensation schemes. From 7 October 2008, under this compensation scheme and subject to the rules of the scheme, eligible deposit claimants have been entitled to receive 100 per cent. compensation for financial loss up to £50,000. The limits in respect of investment business and mortgage advice and arranging claims are £48,000 (100 per cent. of the first £30,000 and 90 per cent. of the next £20,000), and in respect of insurance claims are 100 per cent. of the first £2,000 and 90 per cent. of the remainder of the claim (except compulsory insurance for which it is 100 per cent. of the claim). These levels of compensation may vary over time and may differ from those applicable to claims in respect of firms in other jurisdictions.

The European Commission has proposed to amend the Directive on Deposit Guarantee Schemes (1994/19/EC) to increase the minimum level of coverage for deposits from €20,000 to €100,000 within one year, and initially to €50,000 in the intervening period. The payout period in the event of bank failure will be reduced from three months to three days. The coverage level of €50,000 would apply from 15 October 2008 and all other provisions will be effective as of 31 December 2008.

Further information relating to the Financial Services Compensation Scheme is set out in paragraph 3 ("Financial Services Compensation Scheme") of Part V ("Update on the Acquisition and the Placing and Open Offer, Payment Protection Insurance and Certain Other Matters") on page 11 of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein.

Capital adequacy

Lloyds TSB, HBOS, and certain members of the Lloyds TSB Group and the HBOS Group respectively, are subject to capital adequacy guidelines adopted by the FSA for a bank or a bank holding company, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis expressed as a percentage.

The risk-adjusted capital guidelines (the "Basel Accord") promulgated by the Basel Committee on Banking Supervision (the "Basel Committee"), which form the basis for the FSA's capital adequacy guidelines, have been revised and implemented in the UK with effect from 1 January 2007 ("Basel II"). The principal changes effected by the revised guidelines include a range of options to determine risk-weighting. In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008, the Advanced Measurement Approach for Operational Risk. HBOS has adopted the Advanced Internal Ratings Based Approach (for Credit Risk) and the Advanced Measurement Approach (for Operational Risk) with effect from 1 January 2008, following a year of parallel running of these approaches. Certain HBOS portfolios remain on the standardised approach with agreement with the FSA of a timetable for further roll out of credit risk models over the next two years. Under Basel II, capital requirements are inherently more volatile than under previous regimes and will increase if economic conditions or default trends worsen.

The Lloyds TSB Group's and the HBOS Group's banking businesses outside the UK are subject to the capital adequacy regimes of those jurisdictions, some of which will implement Basel II on a longer time frame.

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

The Lloyds TSB Group's and the HBOS Group's failure to maintain adequate capital ratios may result in administrative actions or sanctions against the Lloyds TSB Group or the Enlarged Group which may have a material adverse impact on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations.

The Bank of England

The Bank of England has the task of ensuring stability in the financial markets which it undertakes in co-operation with the FSA. The agreed framework for co-operation in the field of financial stability is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England is responsible for the overall stability of the financial system as a whole, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board.

UK Government

The UK Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury about possible problems, for example where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

In order to deal with the crisis caused by the failure of Northern Rock, the BSP Act was enacted on an expedited basis in February 2008, when it became apparent that it would not be possible to achieve a private sector sale of Northern Rock plc which would adequately protect taxpayers' and consumers' interests. The key provisions of the BSP Act are subject to a sunset clause and are due to expire in February 2009. The BSP Act confers on HM Treasury various powers including, for example, the power to take UK deposit-taking institutions into temporary public ownership by way of the compulsory transfer of the securities or property of such UK deposit-taker to the Bank of England, a nominee of HM Treasury, a company wholly owned by the Bank of England or HM Treasury, or to any other company. The powers under the BSP Act have been exercised in relation to Northern Rock, Bradford and Bingley, Heritable Bank and Kaupthing, Singer and Friedlander.

Lloyds TSB understands that HM Treasury has been working with the Bank of England and the FSA (collectively, the "Tripartite Authorities") in developing proposals for a permanent set of measures to replace the BSP Act. In October 2008, following a process of consultation, the Banking Bill was

introduced to Parliament. The Bill sets out the permanent measures which are designed to achieve a number of key policy priorities, including reducing the likelihood, and impact, of individual banks failing.

In particular, the measures include a special resolution regime (the “SRR”), which will provide the Tripartite Authorities with significant new tools for facilitating the resolution of a failing bank before it becomes insolvent. These tools consist of three “stabilisation options”, which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions set out in the FSA Handbook and cannot be assisted through normal regulatory action or marketbased solutions. The stabilisation options comprise powers to transfer the property, assets and liabilities (“property”) or the securities of a failing bank to a private sector purchaser; the property of a bank to a “bridge bank” controlled by the Bank of England; or the securities of a bank into temporary public ownership. In addition, the Bill provides for a special bank insolvency procedure, which may be triggered at existing insolvency thresholds and provides a mechanism to enable fast and orderly Financial Services Compensation Scheme payments and minimise the risk of a run on a bank. The Bill also makes provision for the “bank administration procedure” which is a special form of insolvency which may be used where only part of a failing bank is transferred to a bridge bank, a private sector purchaser or by way of an onwards transfer from temporary public ownership, leaving behind an insolvent “residual company”.

The details of this regime and possible other proposals have not been fully developed and so it is not clear how they would operate in practice and how they would impact the relationship between the Bank of England, HM Treasury and the FSA. Changes to the Memorandum of Understanding referred to above may also be required.

Further information relating to the BSP Act and the proposed Banking Bill is set out in paragraph 3.2 of the section entitled “Risk Factors – Risks factors relating to the Lloyds TSB Group” contained in this document.

Data protection

Members of the Lloyds TSB Group and the HBOS Group in the UK which hold, control and/or process data relating to identifiable individuals are subject to the UK data protection regime, consisting principally of the Data Protection Act 1998 and subordinate legislation made thereunder. The UK data protection regime is supervised by the Information Commissioner. The regime imposes limitations on the manner in which, and the extent to which, persons controlling personal data can hold, process and transfer that data to third parties, including between members of the same group of companies. Similar data protection and security requirements apply to members of the respective groups carrying on business in EEA member states other than the UK.

Retail Distribution Review

As a part of its Treating Customers Fairly initiative, the FSA announced a Retail Distribution Review (“RDR”) in June 2006 with the aim of identifying measures that would increase consumer confidence in the retail market and encourage more frequent use of its products and services. Following discussions with stakeholders, the FSA published a Discussion Paper in June 2007, followed by an Interim Report in April 2008 and a feedback statement in November 2008. The FSA intends to continue to develop its thinking in this area in consultation with all relevant stakeholders. No firm proposals will be known for at least several months and no assessment of the ultimate potential outcome for the Lloyds TSB Group or the HBOS Group is possible at this time.

UK Competition Commission investigation of payment protection insurance

The Competition Commission is formally investigating the supply of Payment Protection Insurance (“PPI”) services (except store card PPI) to non-business customers in the UK. Various members of the

Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multiyear PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group and the Enlarged Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group or the Enlarged Group, as appropriate, were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

UK Office of Fair Trading

Fairness of current account overdraft charges

In April 2007, the OFT commenced an investigation into the fairness of current account overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July 2008 to consider whether the financial institutions' historic terms and conditions are similarly not capable of being penalties, and to consider whether their historic terms are assessable for fairness. On 8 October 2008, the High Court issued its group judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations and any Appeal Court determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

Interchange Fees

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange

fee in respect of cross-border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

Personal current accounts

In April 2007, the OFT launched a market study into personal current accounts which resulted in a report that was published on 16 July 2008. The OFT stated that it had found evidence of competition in the personal current account market. Banks could also demonstrate high consumer satisfaction and low fees on the more visible elements of current accounts – such as withdrawals from ATMs. Internet and telephone banking have also made it easier for consumers to manage their accounts. However, the OFT concluded that the personal current account market as a whole is not working well for consumers. A combination of complexity and a lack of transparency means that consumers and competition are focused almost exclusively on more visible fees and not on the less visible elements, such as insufficient funds charges and foregone interest – despite the fact that these make up the vast bulk of banks' revenues. For insufficient fund charges, this effect is exacerbated by a lack of simple mechanisms to control, or opt out of, an unarranged overdraft. Furthermore, a significant proportion of consumers believe that it is complex and risky to switch accounts, with the result that switching rates are very low.

The OFT invited comments from interested parties, with a deadline for responses of 31 October 2008. It has in particular highlighted the low levels of transparency and switching and complexity of charges as issues upon which it would welcome comments together with potential measures to address those issues. The OFT has indicated that, depending upon the outcome of the consultation, it may publish a further or final report early in 2009. Its objective is to produce recommendations that the banking industry, in consultation with government and other relevant stakeholders, will take forward. Failing resolution of its concerns by that means, the OFT has indicated that it would consider alternative remedies including changes to the Banking Code, recommendations to government or regulatory bodies or a market reference to the Competition Commission.

Continuing review of certain markets

In the Secretary of State's announcement on 31 October 2008 that the Acquisition would not be referred to the Competition Commission (noted in paragraph 2.4 of the section entitled "Risk Factors – Risk factors relating to the Lloyds TSB Group" contained in this document), he said that, in view of the fact that there were some concerns about the possible effects of the Acquisition on competition, he was asking the OFT to keep the relevant markets under review in order to protect the interests of UK consumers and the British economy.

The concerns to which the Secretary of State referred are identified in the OFT's report to him on the effects of the Acquisition on competition. The OFT's concerns relate to three markets, namely personal current accounts, SME banking (primarily in Scotland) and mortgages. The OFT stated that it was not required to reach a definite conclusion as to the competitive effects of the Acquisition. Rather, it was only required to conclude whether the test for reference of the Acquisition to the Competition Commission was satisfied. Applying that test, the OFT concluded that it believed there to be a realistic prospect that

the Acquisition may give rise to a substantial lessening of competition in the three markets identified. It was by no means a foregone conclusion, the OFT said, that, in the event of a reference, the Competition Commission would find that, on a balance of probabilities, the Acquisition would give rise to a substantial lessening of competition in any of those markets.

In relation to the personal current account market, the OFT's assessment follows closely the analysis and conclusions in the market study that it published in July 2008 (see preceding section). In the context of a market that, in the OFT's opinion, is not working well for consumers, the OFT said that there was a realistic prospect that, by reason of the Enlarged Group's greater market share, it would have a lesser incentive to reduce prices or raise standards of quality and service to established customers.

In relation to SME banking, the OFT's assessment mirrored that applied to the personal current account market. It was particularly concerned about the possible effects of the Acquisition in Scotland where the Enlarged Group and Royal Bank of Scotland plc would together account for a substantial proportion of SME banking. The OFT also said that it could not exclude the risk of adverse effects in other local markets.

In relation to mortgages, the OFT said that its concerns were more marginal. Prior investigations (notably the Competition Commission's investigation of Lloyds TSB's proposed acquisition of Abbey National in 2001) had concluded that the mortgage market was competitive. However, the OFT observed that, under current conditions, the mortgage market may be tighter than it was with higher barriers to entry and greater obstacles to customer switching: under such conditions, the combination of the largest and third largest mortgage providers was significant enough to cause concern.

The OFT also assessed the impact of the Acquisition on other markets (wealth management savings, personal loans, credit cards, pensions, banking services to large corporations, treasury and capital markets, asset finance/fleet car hire, life insurance and general insurance) and concluded that it did not raise competition concerns in any of those markets. The market for payment protection insurance is currently under investigation by the Competition Commission which has proposed a number of possible remedies to address adverse effects on competition that it has identified in the market: the OFT concluded that, given the present factual situation and the uncertain effect of the Competition Commission's possible remedies, it could not be said that there was a reasonable prospect that the Acquisition would result in a substantial lessening of competition in that market.

The OFT has not yet indicated what steps it will take to keep the relevant markets under review. In relation to personal current accounts, however, it is to be expected that those steps will consist of a continuation of the process initiated by the market study (discussed above).

The European Commission

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments. High degrees of variation of prices, profit margins and selling patterns between Member States and high degrees of homogeneity within Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;

- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fee for payment cards, co-branding, surcharging and the practice of “blending” card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks’ power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

Some of these concerns have already been addressed, at least in part. For example, following the interim report being published, the Commission met with Austrian banks who agreed to review arrangements for setting interchange fees and announced that a reduction can be expected. In Portugal, issuers and acquirers have met some of the concerns raised in the report by reducing domestic interchange fees and removing preferential bilateral domestic interchange fees. The establishment of a Single Euro Payments Area (SEPA) is also seen as a method of remedying some of the competition concerns raised in the report. Since 1 January 2008, banks have been able to make the first SEPA products available and are aiming to make SEPA a reality for all customers by the end of 2010.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the Commission indicated that it intended to gather more information before acting).

Since the Final Report was published, the Commission has adopted three decisions affecting payment card services. On 3 October 2007, the Commission fined Visa International and Visa Europe €10.2 million for refusing to admit Morgan Stanley as a member from March 2000 to September 2006. In a decision of 17 October 2008, the Commission concluded that the Groupement des Cartes Bancaires infringed Article 81 of the Treaty by adopting price measures hindering the issuing of cards in France at competitive rates by certain member banks, thereby keeping the price of payment cards artificially high and thus favouring the major French banks. On 19 December 2007, the Commission adopted a decision prohibiting MasterCard’s multilateral interchange fees for cross-border card payments with MasterCard and Maestro consumer credit and debit cards between Member States of the European Economic Area (intra-EEA MIFs).

In addition, a number of EU directives, including the Unfair Commercial Practices Directive, Acquisitions Directive and the Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, *inter alia*, Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

International Regulation

Certain entities within the Lloyds TSB Group and the HBOS Group are also subject to the supervision of international regulators, including the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and various state regulators in the United States, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority in Australia, the Irish Financial Regulator in the Republic of Ireland and the Irish Financial Regulator and the FSA in Northern Ireland.

Recapitalisation of financial institutions

The global financial system has recently experienced an unprecedented degree of volatility. The UK Government has announced recently a package of measures to address the current instability in the financial markets, which include a recapitalisation scheme for the UK banking sector. As part of the recapitalisation scheme, HM Treasury is underwriting, and may acquire, a significant shareholding in certain financial institutions issued under placings and open offers. HM Treasury has announced that its intention is to return to the private sector its holdings in the financial institutions participating in the recapitalisation scheme as soon as feasibly possible. The new HM Treasury preference shares are being issued by the Company to HM Treasury as part of the recapitalisation scheme.

Capital, Liquidity and Funding Arrangements

Overview

Capital risk is defined as the risk that the Lloyds TSB Group has insufficient capital to absorb any losses or that the capital structure is inefficient. An exposure would arise if the Lloyds TSB Group had insufficient regulatory capital resources to support its strategic objectives and plans, or to meet external stakeholder requirements and expectations.

Liquidity risk is defined as the risk that the Lloyds TSB Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. Funding risk is further defined as the risk that the Lloyds TSB Group does not have sufficiently stable and diverse sources of funding or that funding structure is inefficient. An exposure would arise if the amount of potential outflows in any future period less committed inflows in that period is such that the Lloyds TSB Group is unable to meet its financial obligations as they fall due, or can meet them by securing funds only at excessive cost.

Capital Arrangements

The effective management of capital and risk remains central to Lloyds TSB's strategy. Lloyds TSB continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout Lloyds TSB's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. It is intended that this same approach will apply in the Enlarged Group. In the pursuit of this focused approach to capital and risk management, Lloyds TSB follows the supervisory requirements of the FSA. During 2008, the key focus of capital adequacy has shifted to the ratio of core Tier 1 capital to risk-weighted assets. At 30 June 2008 Lloyds TSB had a core Tier 1 ratio of 6.2 per cent.

In the context of continued turbulence and uncertainty in financial markets, combined with the deteriorating global economic outlook, the Lloyds TSB Board believes it is essential to maintain higher levels of capital in order to ensure the Enlarged Group remains resilient to any further shocks to the financial system and that it remains competitive. Upon completion of the Placing and Open Offer, Lloyds TSB will issue approximately 2.6 billion Open Offer Shares in accordance with the terms of the Placing and Open Offer Agreement and HBOS will issue approximately 7.5 billion HBOS Open Offer Shares in accordance with the terms of the HBOS Placing and Open Offer Agreement (which will as a result of the Acquisition be exchanged into approximately 4.5 billion Lloyds TSB Shares), raising in aggregate

approximately £13 billion. The fair value of these new shares is £11.8 billion based on the Closing Price of the Lloyds TSB Shares of 166 pence per share on 14 November 2008, the last practicable date prior to the date of publication of the Lloyds TSB Placing and Open Offer Prospectus. Upon completion of the Acquisition and the Placing and Open Offer, Lloyds TSB will also issue 1 million New Preference Shares with an aggregate liquidation preference of £1 billion to HM Treasury in accordance with the terms of the Preference Share Subscription Agreement, and HBOS will issue 3 million New HBOS Preference Shares with an aggregate liquidation preference of £3 billion to HM Treasury in accordance with the terms of the HBOS Preference Share Subscription Agreement, such issues raising in aggregate approximately £4 billion. Based on published information at 30 June 2008, and taking into account Lloyds TSB's equity placing completed on 19 September 2008, the Placing and Open Offer, HBOS' rights issue announced on 29 April 2008 and the HBOS Placing and Open Offer, Lloyds TSB estimates that the Enlarged Group would have had a core Tier 1 ratio of 8.8 per cent. at 30 June 2008. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

Liquidity and Funding Arrangements

Within Lloyds TSB, the liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of Lloyds TSB's balance sheet structure management is to maintain substantial diversification, minimise concentration across Lloyds TSB's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of Lloyds TSB's planning process, it regularly reviews the forecast structure of its balance sheet over the planning period, and updates the funding plan as appropriate. In addition, Lloyds TSB continuously monitors the level of large deposits taken from individual bank, corporate, non-bank financial institution and other customer types and also reviews the significant cash outflows therefrom to monitor concentration and trends. Lloyds TSB operates within the context of a full suite of liquidity metrics to ensure that the Lloyds TSB Group is within the liquidity risk appetite set by the Lloyds TSB Board.

During 2008, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in an attempt to improve liquidity within their respective banking systems. In September and October, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds TSB and HBOS operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Special Liquidity Scheme, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Lloyds TSB and HBOS, operate. Lloyds TSB believes the Enlarged Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by the Enlarged Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, the Enlarged Group will continue to draw on the Special Liquidity Scheme, and will

take advantage of the guaranteed funding provided by HM Treasury. See paragraph 1.5 of the section "Risk Factors - Risk factors relating to the Lloyds TSB Group" contained in this document.

As discussed above, the global markets for short, medium, and long term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme for senior funding) and the Bank of England (via the extended Long Term Repo facility, and the new Discount Window facility) in order to provide further assurance of liquidity support for the markets. The Enlarged Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

Legal actions

1. *UK Competition Commission investigation of payment protection insurance*

The Competition Commission is formally investigating the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK. Various members of the Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multi-year PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact

on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

2. UK Office of Fair Trading

The following reviews and inquiries are being carried out:

In April 2007, the UK Office of Fair Trading (OFT) commenced an investigation into the fairness of current account overdraft charges. At the same time it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group, along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July to consider whether the financial institutions' historical terms and conditions are similarly not capable of being penalties, and to consider whether their historical terms are assessable for fairness. On 8 October 2008, the High Court issued its judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the

charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

Interchange Fees

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of crossborder transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

Continuing Obligations

The Company intends to comply with its obligations as a company with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews and inquiries being conducted by the UK Office of Fair Trading as disclosed above on the Company.

3. Office of Foreign Assets Control

There has been increased scrutiny of the financial institutions sector, especially in the US, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. The Office of Foreign Assets Control ("OFAC") administers US laws and regulations in relation to US economic sanctions against designated foreign countries, nationals and others and the Lloyds TSB Group has been conducting a review of its conduct with respect to historical US dollar payments involving countries, persons or entities subject to those sanctions. The Lloyds TSB Group has provided information relating to its review of such historical payments to a number of authorities including OFAC, the US Department of Justice and the New York

County District Attorney's office which, along with other authorities, have been reported to be conducting a broader review of sanctions compliance by non-US financial institutions. The Lloyds TSB Group is included in ongoing discussions with these and other authorities with respect to agreeing a resolution of their investigations. Discussions have advanced towards resolution and the Lloyds TSB Group provided £180 million in respect of this matter in the first half of 2008.

Recent Developments

- On 30 July 2008, the Company published its 2008 Company Interim Results and Lloyds TSB Bank published its Interim Management Report for the half-year to 30 June 2008. Certain recent developments referred to in the 2008 Company Interim Results are described below (compared to the first half of 2007):
 - On a statutory basis, profit before tax for the first half of 2008 fell by 70 per cent. to £599 million which was largely resultant of the impact of market dislocation and volatility relating to the Group's insurance businesses.
 - At the end of June 2008, the Group had a total capital ratio on a Basel II basis of 11.3 per cent, a tier 1 ratio of 8.6 per cent. and a core tier 1 ratio of 6.2 per cent.
- On 18 September 2008, the Company published the Acquisition Announcement. A copy of the Acquisition Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 18 September 2008, Standard & Poor's published a ratings update placing Lloyds TSB Bank's 'AA' long-term counterparty credit rating and the Company's 'AA/A-1+' long- and short-term counterparty credit ratings on CreditWatch with negative implications and affirming Lloyds TSB Bank's 'A-1+' short-term counterparty credit rating.
- On 18 September 2008, Moody's Investor Services Limited published a ratings update placing Lloyds TSB Bank's 'B+' financial strength rating, its 'Aaa' senior debt and long-term deposit ratings and the Company's 'Aa1' senior debt rating on review for possible downgrade and affirming Lloyds TSB Bank's 'P-1' short term rating.
- On 18 September 2008, Fitch Ratings Ltd published a ratings update placing Lloyds TSB Bank's long-term issuer default rating and senior unsecured debt ratings of 'AA+', its individual rating of 'A' and its subordinated debt ratings of 'AA' on Rating Watch Negative and affirming each of Lloyds TSB Bank's short-term issuer default rating at 'F1+', its Support Rating at '1' and its Support Rating Floor at 'A-' (A minus). In addition, Fitch Ratings Ltd placed the Company's long-term issuer default rating and senior unsecured debt ratings of 'AA+', its individual rating of 'A' and its preference shares and subordinated debt ratings of 'AA' on Rating Watch Negative and affirmed the Company's short-term issuer default rating at 'F1+', its Support Rating at '5' and its Support Rating Floor at 'No Floor'.
- On 8 October 2008, HM Treasury issued a press release entitled "Financial support to the banking industry" (the "Government's Announcement") announcing proposals by the UK Government to ensure stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.
- On 8 October 2008, the Company issued an announcement via the London Stock Exchange plc's Regulatory News Service confirming that it welcomed the Government's Announcement, and stating that the Company would make a further announcement in due course once it had fully assessed the implications of the Government's Announcement.

- On 13 October 2008, the Company published the Acquisition and Capital Announcement. A copy of the Acquisition and Capital Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition and Capital Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 3 November 2008, the Company:
 - published the Management Statement; and
 - posted the Share Circular.

Copies of the Management Statement and the Share Circular have been filed with the Financial Services Authority and the Management Statement and certain parts of the Share Circular are incorporated by reference in, and form part of, this Prospectus.

- (i) On 18 November 2008, the Company published the Lloyds TSB Placing and Open Offer Prospectus and (ii) on 19 November 2008, the Company published an announcement regarding the publication of the Lloyds TSB Placing and Open Offer Prospectus and an update on the timetable for and details of the excess application facility for the Company's shareholders in the context of the placing and open offer. A copy of the Lloyds TSB Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 18 November 2008, HBOS plc published the HBOS Placing and Open Offer Prospectus. A copy of the HBOS Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the HBOS Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 20 November 2008, the Company published a prospectus relating to certain classes of preference share proposed to be issued by the Company in connection with the Preference Share Scheme.
- On 17 December 2008, Lloyds TSB Group plc published the Lloyds TSB Supplementary Placing and Open Offer Prospectus. A copy of the Lloyds TSB Supplementary Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Supplementary Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.

Directors

The directors of the Company and of Lloyds TSB Bank, 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 Lloyds TSB Group, are as follows:

Name	Principal outside activities
Sir Victor Blank Chairman	A member of the Financial Reporting Council from 2002 to 2007 and a member of the Council of Oxford University from 2000 to 2007. A senior adviser to the Texas Pacific Group and appointed by the Prime Minister as a Business Ambassador. Chairs two charities, Wellbeing of Women and UJS Hillel, as well as the Council of University College School.
Executive directors	
J. Eric Daniels Group Chief Executive	A non-executive director of BT Group.
Archie G. Kane Group Executive Director, Insurance and Investments	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, the Takeover Panel and the Chancellor's Insurance Industry Working Group.
G. Truett Tate Group Executive Director, Wholesale & International Banking	A non-executive director of BritishAmerican Business Inc. A member of the fund-raising board of the National Society for the Prevention of Cruelty to Children.
Tim J.W. Tookey Group Finance Director	None.
Helen A. Weir CBE Group Executive Director, UK Retail Banking	A non-executive director of Royal Mail Holdings. A member of the Said Business School Advisory Board.
Non-executive directors	
Wolfgang C.G. Berndt	A non-executive director of Cadbury, GfK AG and MIBA AG.
Ewan Brown CBE FRSE	A non-executive director of Noble Grossart and Stagecoach Group, senior governor of the Court of the University of St Andrews and vice chairman of the Edinburgh International Festival.
Jan P. du Plessis	Chairman of British American Tobacco and a non-executive director of Rio Tinto and Marks and Spencer Group.
Philip N. Green	Chief Executive of United Utilities. A director of Business in the Community, a member of the government's UK Commission for Employment and Skills and a trustee of the Philharmonia Orchestra.
Sir Julian Horn-Smith	A non-executive director of Digicel Group, a member of the Altimo International advisory board and a senior adviser to UBS in relation to the global telecommunications sector.
Lord Leitch	Appointed chairman of Scottish Widows in 2007. Chairman of the government's Review of Skills) and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.

Name	Principal outside activities
Carolyn J. McCall OBE	Group Chief Executive of Guardian Media Group. Chair of Opportunity Now and a board member of Business in the Community.
Sir David Manning GCMG CVO	A non-executive director of BG Group and Lockheed Martin UK Holdings.
Martin A. Scicluna	A non-executive director of Great Portland Estates.

None of the directors of the Company and of Lloyds TSB Bank have any actual or potential conflict between their duties to the Company and to Lloyds TSB Bank and their private interests or other duties as listed above.

Lloyds TSB Audit Committee

Current members:

Jan P. du Plessis (Chairman), Ewan Brown, Philip N. Green, Lord Leitch and Martin A. Scicluna.

The members of the audit committee are independent Non-Executive Directors. The audit committee usually holds at least five meetings each year, two of which are held shortly before submission of the interim and annual financial statements to the Lloyds TSB Board. Audit committee meetings are normally attended by the Group Finance Director, Chief Risk Director and the external auditors. The Chairman, the Group Chief Executive and other members of the Lloyds TSB Board or management attend if requested by the committee. At least once per annum, the audit committee meets privately with the external auditors. The audit committee held six meetings in 2007 and has held five meetings so far in 2008.

The committee is responsible for approving the auditors' terms of engagement, including their remuneration, and assessing their independence and objectivity. The committee also reviews:

- the financial statements published in the name of the board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures;
- the scope of the work of the group audit department, reports from that department and the adequacy of its resources;
- the effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations;
- the results of the external audit and its cost effectiveness; and
- reports from the external auditors on audit planning and their findings on accounting and internal control systems.

The committee has established procedures for handling complaints regarding accounting, internal accounting controls or auditing matters and for staff to raise concerns in confidence.

Corporate Governance

As at the date of this document, Lloyds TSB is in full compliance with the provisions of the Combined Code.

The Combined Code recommends that at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement.

Currently, the Lloyds TSB Board is comprised of 15 members, consisting of the Chairman, five Executive Directors and nine Non-Executive Directors, all of whom are independent.

The roles of the Chairman and Group Chief Executive are not exercised by the same individual and there is a clear division of responsibilities. The Chairman is pivotal in creating the conditions for overall board and individual director effectiveness, both inside and outside the boardroom. The Lloyds TSB Group Chief Executive has responsibility for the recommendation of objectives and strategy for the group; the successful execution of strategy; establishing, maintaining and implementing the risk management framework; the continuing review of organisational structure; and the optimum use and adequacy of the group's resources.

The Lloyds TSB Board has established nomination, remuneration, audit and risk oversight committees, with formally delegated duties and responsibilities and written terms of references. From time to time, separate committees may be set up by the Lloyds TSB Board to consider specific issues when the need arises.

Memorandum and Articles of Association

Lloyds TSB's Memorandum and Articles of Association are available for inspection as set out on page 97, in "General Information" below.

The Memorandum of Association provides, amongst other things, that the main objects for which the Company is formed and incorporated are to take over and hold all or such part of the property and rights, and to assume and undertake all or such part of the liabilities and obligations, of the Trustee Savings Bank Central Board (the "Central Board"), Trustee Savings Banks (Holdings) Limited ("TSB Holdings") and the trustee savings banks (meaning the banks defined as the existing banks in the Trustee Savings Banks Act 1985, the "TSBA") as shall be transferred to and vested in Lloyds TSB under the TSBA, to carry on the business of banking in all or any of its aspects and to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company.

Under the Memorandum of Association, Lloyds TSB may borrow or raise money in such manner and upon such terms and on such security as may seem to the directors to be expedient and in particular by the issue or deposit of debentures or debenture stock or other securities of any description and to secure all or any of Lloyds TSB's liabilities in respect of money borrowed, raised or owing or any other debt or obligation of or binding on Lloyds TSB in such manner as may be thought expedient and in particular by mortgage, charge or lien upon all or any part of the undertaking, property and assets, present or future, and uncalled capital of Lloyds TSB.

Share Capital Summary

Authorised ordinary share capital

At 10 December 2008, being the latest practicable date before publication of this document, the authorised ordinary share capital of the Company was £1,747,500,000 divided into 6,911,052,632 ordinary shares of £0.25 each and 78,947,368 limited voting ordinary shares of £0.25 each, of which 5,972,853,501 ordinary shares and 78,947,368 limited voting shares were issued and fully paid up or credited as fully paid.

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, the authorised ordinary share capital of the Company was £1,747,500,000 divided into 6,911,052,632 ordinary shares of £0.25 each and 78,947,368 limited voting ordinary shares of £0.25 each.

Issued ordinary share capital

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, 5,596,397,111 ordinary shares and 78,947,368 limited voting ordinary shares were in issue fully paid or credited as fully paid.

Current Share Capital Position

The following table shows the authorised and issued share capital of the Company, as at 10 December 2008, being the latest practicable date prior to the publication of this document:

Class of Share	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Ordinary Shares of £0.25 each.....	6,911,052,632	£1,727,763,158	5,972,853,501	£1,493,213,375
Limited Voting Ordinary Shares of £0.25 each ..	78,947,368	£19,736,842	78,947,368	£19,736,842
Preference Shares of £0.25 each	175,000,000	£43,750,000	600,400	£150,100
Preference Shares of US\$0.25 each	160,000,000	US\$40,000,000	1,000,000	US\$250,000
Preference Shares of €0.25 each	160,000,000	€40,000,000	—	—
Preference Shares of ¥25 each	50,000,000	¥1,250,000,000	—	—

The authorised, issued and fully paid share capital of the Company immediately following completion of the Placing and Open Offer, the New Preference Share Issue, the HBOS Preference Share Scheme and the Acquisition⁽¹⁾ is expected to be as follows:

Class of Share	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Ordinary Shares of £0.25 each.....	21,822,960,853	£5,455,740,213	16,367,332,731	£4,091,833,183
Limited Voting Ordinary Shares of £0.25 each ..	78,947,368	£19,736,842	78,947,368	£19,736,842
Preference Shares of £0.25 each	800,000,000	£200,000,000	603,700,400	£150,925,100
Preference Shares of US\$0.25 each	160,000,000	US\$40,000,000	3,250,000	US\$812,500
Preference Shares of €0.25 each	160,000,000	€40,000,000	—	—
Preference Shares of ¥25 each	50,000,000	¥1,250,000,000	—	—

Note:

- (1) The number of Lloyds TSB Shares in issue immediately following the Placing and Open Offer, the New Preference Share Issue, the HBOS Preference Share Scheme and the Acquisition assumes (i) that the maximum number of Lloyds TSB Shares and Lloyds TSB Preference Shares to be issued pursuant to the Acquisition, Placing and Open Offer, the New Preference Share Issue and the HBOS Preference Share Scheme have been issued, (ii) no other issues of Lloyds TSB Shares or Lloyds TSB Preference Shares (including under Lloyds TSB Share Plans) between 10 December 2008, being the last practicable date prior to the publication of this document, and the Effective Date, and (iii) no other issues of HBOS Shares (including under the HBOS Share Schemes) between 10 December 2008, being the last practicable date prior to the publication of this document, and the Effective Date.

Options and awards to acquire Lloyds TSB Shares have been granted to employees of the Lloyds TSB Group under the Lloyds TSB Share Plans. As at 10 December 2008 there were options and awards outstanding over 228,162,003 Lloyds TSB Shares.

Major Shareholders of Lloyds TSB

Details of Interests

As at 10 December 2008 (the latest practicable date prior to the publication of this document), notifications had been received of the following interests in three per cent. or more of Lloyds TSB's issued ordinary share capital:

Shareholder	Prior to Admission of the Consideration Shares and the Open Offer Shares ⁽¹⁾		Following Admission of the Consideration Shares and the Open Offer Shares ⁽¹⁾	
	Number of Lloyds TSB Shares	Percentage of issued ordinary share capital	Number of Lloyds TSB Shares	Percentage of issued ordinary share capital
HM Treasury	0	0	7,123,501,794	43.52
Legal & General Group Plc (L&G)	234,407,870	3.92	234,407,870	1.43
Barclays PLC	216,216,951	3.62	216,216,951	1.32
The Capital Group Companies, Inc.	272,152,525	4.56	272,152,525	1.66

Notes:

- (1) Figures are calculated assuming that (i) the interests of the existing major shareholders as at close of business on 10 December 2008, being the last practicable date prior to the publication of this document, do not change, (ii) the maximum number of Lloyds TSB Shares to be issued pursuant to the Acquisition and the Placing and Open Offer have been issued, (iii) no other Lloyds TSB Shares (including under Lloyds TSB Share Plans) are issued between 10 December 2008, being the last practicable date prior to the publication of this document, and the Effective Date, (iv) no HBOS Shares other than those issued pursuant to the Acquisition and the HBOS Placing and Open Offer (including under the HBOS Share Schemes) are issued between 10 December 2008, being the last practicable date prior to the publication of this document, and the Effective Date, (v) no existing Lloyds TSB Shareholders or HBOS Shareholders acquire any Open Offer Shares or HBOS Open Offer Shares, as the case may be; and (vi) that the existing major shareholders do not own any HBOS Shares.

Save as disclosed above, the Lloyds TSB Directors are not aware of any person who is interested (within the meaning of rule 5 of the Disclosure and Transparency Rules), directly or indirectly, in the total voting rights attaching to, three per cent. or more of the issued share capital of the Company. The figures above do not take account of interests in the voting rights of the Company of any existing Lloyds TSB shareholders or third parties who buy existing ordinary shares before the Open Offer Record Date and who, pursuant to the Open Offer, including the Excess Application Facility, acquire an interest in the voting rights attaching to three per cent. or more of the issued share capital of the Company.

As at 10 December 2008, being the latest practicable date prior to the publication of this document, the Company was not aware of any person or persons who directly, indirectly, jointly or severally, exercise or could exercise control over the Company nor is it aware of any arrangements the operation of which may, at a subsequent date, result in a change in control of the Company.

None of the Company's major shareholders has, or will have, different voting rights attached to the Lloyds TSB Shares they hold.

TAXATION

The following, which is intended as a general guide only and not a substitute for detailed tax advice, is based on current United Kingdom legislation and on what is understood to be current HMRC practice at the date of this document. It summarises certain limited aspects of the current United Kingdom taxation treatment of the Preference Shares. It is not exhaustive. It relates only to the position of persons who are resident and, in the case of individuals, ordinarily resident and domiciled in the UK for UK tax purposes (unless otherwise stated), who hold the Preference Shares as investments (other than through an individual savings account) and who are the absolute beneficial owners of the Preference Shares. The statements may not apply to certain classes of holders, such as dealers in securities, insurance companies, collective investment schemes and persons who acquire (or are deemed to acquire) their Preference Shares by reason of their or another's office or employment. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

United Kingdom Taxation

Taxation of dividends

The Company is not required to withhold any amounts in respect of tax at source when paying a dividend.

A shareholder who is an individual and who receives a dividend on the Preference Shares will be entitled to a tax credit equal to one-ninth of the dividend. The individual will be taxable on the total of the dividend and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the gross dividend calculated at 32.5 per cent. of the gross dividend less the related tax credit. Therefore, for example, a dividend of £90 will carry a tax credit of £10 and the income tax payable on the dividend by an individual liable to income tax at the higher rate would be 32.5 per cent. of £100, namely £32.50 less the tax credit of £10, leaving a net tax charge of £22.50.

A corporate shareholder resident for tax purposes in the United Kingdom will not generally be taxable on any dividend it receives on the New Lloyds TSB Preference Shares.

A shareholder who is not liable to tax on dividends received on the New Lloyds TSB Preference Shares will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a shareholder who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received on the New Lloyds TSB Preference Shares and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the United Kingdom and the country in which the shareholder is resident.

Taxation of chargeable gains

The sale, or other deemed disposal, of Preference Shares may give rise to the realisation of a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains. An individual holder of Preference Shares who is resident or ordinarily resident in the UK for tax purposes and who realises such a gain may be liable to UK capital gains tax, depending on the holder's circumstances and subject to any available exemption or relief.

An individual holder of Preference Shares who ceases to be resident or ordinarily resident in the UK for a period broadly of less than five years and who disposes of the Preference Shares during that period of temporary non-residence may be liable to UK capital gains tax on his or her return to the UK (subject to any available exemptions or reliefs).

A corporate holder of Preference Shares who is resident in the UK for tax purposes and who realises such a gain may be liable to UK corporation tax on chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

A holder of Preference Shares who is not resident or, in the case of an individual, ordinarily resident for tax purposes in the UK (and is not temporarily non-resident as described above) will not be liable for UK tax on chargeable gains realised on the sale or other disposal of the Preference Shares unless such Preference Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency, or, in the case of a corporate shareholder, through a permanent establishment, may be subject to UK capital gains tax or corporation tax on a disposal of Preference Shares, subject to any available exemption or relief. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the UK.

Stamp duty and SDRT

Issue of the Preference Shares

The Company has received written confirmation from HMRC that there will be no charge to stamp duty or SDRT on delivery of the Preference Shares to the Common Depositary.

Agreements to transfer, and transfers of, the Preference Shares

A transfer of Preference Shares held through a clearance service will generally be exempt from stamp duty and SDRT, unless the clearance service has elected for an alternative system of charge pursuant to section 97A of the Finance Act 1986.

Registered Preference Shares

Bearer share warrants held outside a clearance service may be surrendered in exchange for Preference Shares in registered form.

Subject to certain exceptions, a transfer of Preference Shares in registered form would attract *ad valorem* UK stamp duty, and an unconditional agreement to transfer would attract SDRT (provided that SDRT would not be payable if UK stamp duty had been paid), generally at the rate of 0.5% (rounded up, if necessary, to the nearest £5) on the amount or value of the consideration of the transfer. Generally, *ad valorem* stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner, although in cases of transfers where no *ad valorem* stamp duty arises, a fixed UK stamp duty of £5 may be payable.

UK stamp duty would, subject to certain exceptions, be payable at the rate of 1.5% (rounded up, if necessary to the nearest £5) of the value of the Preference Shares in registered form on any instrument pursuant to which Preference Shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts. UK SDRT, at the same rate, could also be payable in these circumstances but no SDRT would be payable if stamp duty were paid.

Finance Act 1996

Under Sections 91A-91G Finance Act 1996, it is possible that a shareholder of New Lloyds TSB Preference Shares subject to UK corporation tax would be taxed on a fair value income basis, and the positions outlined in the previous paragraphs under the sub-headings "Taxation of Dividends" and

“Taxation of chargeable gains” would not apply. Those provisions would not apply where the holder does not hold the New Lloyds TSB Preference Shares for a “tax avoidance purpose”.

Netherlands Taxation

Under current Dutch law all payments made under the Preference Shares may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that at that time the Company will not be regarded as tax resident in the Netherlands for the purpose of the Dutch Dividend Tax Act 1965 (Wet op de dividend belasting 1965).

GENERAL INFORMATION

Authorisation

The issue of the Preference Shares by the Company has been duly authorised by resolutions of the Board of Directors of the Company passed on 12 December 2008.

Listing

It is expected that listing of the Preference Shares on the Official List and admission of the Preference Shares to trading on the Market will be granted on 19 January 2009, subject only, in relation to each series, to the issue of a single global share warrant to bearer. Transactions will normally be effected for delivery on the third week day after the day of the transaction.

The 7.875 per cent. USD Preference Shares have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with Common Code 040609504 and International Securities Identification Number (ISIN) XS0406095041.

The 7.875 per cent. Euro Preference Shares have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with Common Code 040609563 and International Securities Identification Number (ISIN) XS0406095637.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

Documents Available

For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the head office of Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report and accounts of the Company for the two years ending 31 December 2006 and 31 December 2007;
- (c) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and
- (d) copies of documents incorporated by reference, as set out in the section "Documents Incorporated by Reference" in this Prospectus.

Significant or Material Change

Save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "Strong relationship banking growth in Wholesale and International Banking", the third paragraph of the section headed "In a difficult economic environment, asset quality remains satisfactory", and the section headed "Insurance volatility" in the Management Statement, as incorporated by reference herein, there has been no significant change in the financial or trading position of Lloyds TSB Group since 30 June 2008, and save as disclosed in of the 2008 Company Interim Results as incorporated by reference herein and save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "Strong relationship banking growth in Wholesale and International Banking", the third paragraph of the section headed "In a difficult

economic environment, asset quality remains satisfactory” and the section headed “Insurance volatility” in the Management Statement, as incorporated by reference herein, and save as disclosed in Part V of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein, there has been no material adverse change in the prospects of the Lloyds TSB Group since 31 December 2007.

Litigation

Save as disclosed in section 1 (UK Competition Commission investigation of payment protection insurance), sub-section 2.1 of section 2 (UK Office of Fair Trading), sub-section 2.2 of section 2 (UK Office of Fair Trading) and section 3 (Office of Foreign Assets Control) of the section entitled “Lloyds TSB Group – Legal actions” on pages 84 to 87 of this Prospectus, sections 18.1.1 to 18.1.3 (“Litigation – HBOS”) of Part XXII (“Additional Information”) of the HBOS Placing and Open Offer Prospectus and section 18 (“Litigation”) of Part XVIII (“Additional Information”) of the HBOS Rights Issue Prospectus (each as incorporated by reference herein), 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 Lloyds TSB Group.

Independent Auditors

The auditors of the Company are, and have been throughout the period covered by the financial information in this document, PricewaterhouseCoopers LLP.

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

A Ordinary Shares	means the A ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and “A Ordinary Shares” means any one of them.
Acquisition	means the proposed acquisition by Lloyds TSB Group plc of HBOS by means of the Scheme (or by means of an offer if Lloyds TSB so elects in accordance with the terms of the Share Circular and subject to the consent of the Panel).
Acquisition and Capital Announcement	has the meaning given in (v) on page 4.
Acquisition Announcement	has the meaning given in (iv) on page 4.
Applicable Regulatory Capital Requirements	means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Company on a solo and/or consolidated basis, including transitional rules and waivers.
B Ordinary Shares	means the B ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and “B Ordinary Shares” means any one of them.
Bank or Lloyds TSB Bank	means Lloyds TSB Bank plc.
Capital Disqualification Event	shall be deemed to have occurred if (a) the Preference Shares would cease to be eligible to qualify (save where such non-qualification is only a result of any applicable limitation on the amount of such capital) as regulatory capital for then Company under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Company that the Preference Shares would cease to be eligible to qualify as regulatory capital for the Company.
Capital Reduction	means the proposed reduction of share capital of HBOS comprised in the Scheme.
Capital Regulations	means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA or other relevant regulator.
Clearstream, Luxembourg	means Clearstream Bank, société anonyme.
Court Meeting or HBOS Court Meeting	means the meeting of the Scheme Shareholders (and any adjournment thereof) to be convened pursuant to an order of the Court of Session in Edinburgh pursuant to section 896 of the Companies Act 2006 (as amended) in so far as in force for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment).

Deferred Share	means one unissued ordinary shares of 25 pence in the share capital of HBOS that is to be reclassified as a non-voting deferred share of 25 pence and issued to Lloyds TSB prior to the Scheme record date.
Depository	means common depository for Euroclear and Clearstream, Luxembourg.
Disclosure and Transparency Rules	means The Disclosure and Transparency Rules made by the FSA under Part VI.
distributable profits	has the meaning given to it in the Companies Acts as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses.
Dividend Period	means the period from and including the most recent Dividend Payment Date (or the Issue Date) to but excluding the next proceeding Dividend Payment Date.
Effective	means, in the context of the Acquisition: <ul style="list-style-type: none"> (i) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or (ii) if the Acquisition is implemented by way of a takeover offer under section 974 of the Companies Act 2006 (as amended) in so far as in force, the takeover offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code on Takeovers and Mergers.
Effective Date	means the date on which the Scheme becomes effective in accordance with its terms.
Enlarged Group	means, with effect from the Effective Date, the combined Lloyds TSB Group and HBOS Group.
Euro Preference Shares	means the €500,000,000 7.875% Non-Cumulative Preference Shares.
Euroclear	means Euroclear Bank S.A./N.V. or any successor thereof.
Euronext Amsterdam	means Euronext Amsterdam by NYSE Euronext, a regulated market of Euronext Amsterdam N.V.
FSMA	means the Financial Services and Markets Act 2000, as amended.
Group	see "Lloyds TSB Group".
HBOS	means HBOS plc, registered in Scotland with registered number SC218813.
HBOS ADSs	means the American Depositary Shares of HBOS, each representing one HBOS Share and evidenced by American Depositary Receipts, and "HBOS ADS" means any one of them.
HBOS Articles	means the articles of association of HBOS in force from time to time.

HBOS General Meeting	means the general meeting of HBOS Shareholders (and any adjournment thereof) to be convened for the purposes of considering and, if thought fit, approving, among other things, certain resolutions in connection with the Scheme, including any adjournment thereof.
HBOS Group	means HBOS and its subsidiary undertakings.
HBOS Open Offer	means the offer by HBOS to qualifying HBOS Shareholders to apply for the HBOS Open Offer Shares on the terms and subject to the prospectus to be published by HBOS and any associated application form.
HBOS Open Offer Shares	means approximately 7.5 billion new HBOS Shares to be offered pursuant to the HBOS Placing and Open Offer and which HM Treasury has agreed to acquire pursuant to the HBOS Placing and Open Offer Agreement, subject to clawback in respect of valid applications by qualifying HBOS Shareholders.
HBOS Placing	means the conditional placing by HBOS of the HBOS Open Offer Shares with HM Treasury.
HBOS Placing and Open Offer	means the HBOS Placing and the HBOS Open Offer.
HBOS Placing and Open Offer Agreement	means the agreement relating to the HBOS Placing and Open Offer entered into with effect from 13 October 2008 by HBOS, HM Treasury, Morgan Stanley and Dresdner Kleinwort.
HBOS Placing and Open Offer Prospectus	has the meaning given in (ix) on page 6.
HBOS Rights Issue Prospectus	has the meaning given in (x) on page 6.
HBOS Shareholders	means the registered holders of HBOS Shares and such term shall include holders of HBOS ADSs, as the case may be, and "HBOS Shareholder" means any of such holders.
HBOS Shares	means the ordinary shares of 25 pence each in the capital of HBOS (including Shares underlying HBOS ADSs) and HBOS Share means any one of them.
Hearing Record Time	means 6:00 p.m. on the Business Day (meaning any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh) immediately preceding the Reduction Court Hearing.
HM Treasury	means the Commissioners of Her Majesty's Treasury (or, where HM Treasury has nominated a nominee to acquire any shares which HM Treasury would otherwise be obliged to acquire, such nominee).
Issue Date	means 19 January 2009.

Junior Share Capital	means the ordinary shares, or any other shares ranking, or expressed to rank junior to the Preference Shares, (either issued directly by the Company or by a subsidiary undertaking and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank junior to the Preference Shares).
Listing Rules	means The Listing Rules made by the FSA under Part VI of FSMA.
Lloyds TSB Placing and Open Offer Prospectus	has the meaning given in (viii) on page 5.
Lloyds TSB Group or Group	means Lloyds TSB and its subsidiary undertakings from time to time and (other than for the purposes of the section headed <i>Lloyds TSB Group - Capital, Liquidity and Funding Arrangements</i>) being the Enlarged Group following completion of the Acquisition.
Lloyds TSB Scotland	means Lloyds TSB Scotland plc.
Management Statement	has the meaning given in (vi) on page 4.
Non-Innovative Tier 1 Capital	means capital which by its terms is eligible to qualify for Tier 1 capital treatment over the current 15% limitation established for Innovative Tier 1 capital within the requirements laid down in the FSA's General Prudential Sourcebook (as amended from time to time) or any successor publication replacing such guide or is issued capital of the Company regardless of name or designation.
Other Tier 1 Securities	means any securities which are Tier 1 Capital of the Company and which rank on a winding-up of the Company or in respect of a distribution or payment of dividends or any other payments thereon, <i>pari passu</i> with the most senior preference share capital of the Company, the 6.35 per cent. Step-Up Perpetual Capital Securities callable in 2013, the 6.90 per cent. Perpetual Capital Securities callable 2007, the 7.375 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2012, the 7.834 per cent. Step-Up Non-voting Non-cumulative Preferred Securities callable 2015 and the 4.385 per cent. Step-Up Perpetual Capital Securities callable 2017.
Panel or Takeover Panel	means the Panel on Takeovers and Mergers.
Parity Securities	means the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and any other obligations ranking or expressed to rank <i>pari passu</i> with the Preference Shares other than the 2004 Preference Shares.
Paying Agent	means Citibank N.A., London Branch.
Preference Shares	means the USD Preference Shares and the Euro Preference Shares.
Prospectus Rules	means The prospectus rules made by the FSA under Part VI

Qualifying Tier 1 Securities

of FSMA.

means securities whether debt, equity or otherwise, issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares, provided that they shall (1) include a ranking at least equal to that of the Preference Shares, (2) have the same dividend or distribution rate or rate of return and Dividend Payment Dates from time to time applying to the Preference Shares, (3) have the same redemption dates as the Preference Shares, (4) be issued in an amount at least equal to the total number of Preference Shares multiplied by U.S.\$1,000, (5) comply with the then current requirements of the FSA in relation to Tier 1 Capital, and (6) preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid in respect of the period from (and including) the Dividend Payment Date last preceding the Substitution Date to (but excluding) the Substitution Date; and
- (b) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange.

“Qualifying Upper Tier 2 Securities”

means securities issued directly or indirectly by the Company that:

- (a) have terms not materially less favourable to a holder of Preference Shares, as reasonably determined by the Company, than the terms of the Preference Shares provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) they provide for the same rate of return, (3) they shall rank senior to, or pari passu with, the Preference Shares; and (4) such securities shall preserve any existing rights under the Preference Shares to any accrued dividend which has not been paid;
- (b) do not have terms such that (x) the Company would not, as a result of the Qualifying Upper Tier 2 Securities being in issue, be able to have losses or deductions set against the profits, or profits offset by the losses or deductions, of companies with which it is or would otherwise be grouped for United Kingdom tax purposes or (y) the holders of such Qualifying Upper Tier 2 Securities would constitute “equity holders” of the Company for United Kingdom tax purposes; and
- (c) are listed on the London Stock Exchange, the Luxembourg Stock Exchange or such other stock exchange as is a recognised stock exchange.

Reduction Court Hearing	means the hearing by the Court of Session in Edinburgh, Scotland of the petition to confirm the Capital Reduction under section 137 of the Companies Act 1985 (as amended or re-enacted) and authorising the re-registration of HBOS as a private company under section 139 of the Companies Act 1985 (as amended or re-enacted).
Scheme or Scheme of Arrangement	means the proposed scheme of arrangement under sections 895 to 899 of the Companies Act 2006, (as amended) in so far as in force between HBOS and the holders of the Scheme Shares, with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and which the Court of Session in Edinburgh may think fit to approve or impose.
Scheme Document	means the document dated 14 November 2008 containing, <i>inter alia</i> , the Scheme and the notice of the Court Meeting and the HBOS General Meeting.
Scheme Shares	<p>means HBOS Shares:</p> <ul style="list-style-type: none"> (a) in issue on the date of the Scheme Document; (b) issued after the date of the Lloyds TSB Placing and Open Offer Prospectus and prior to the Voting Record Time; (c) issued on or after the Voting Record Time but before the Hearing Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS General Meeting, in respect of which the holder thereof shall have agreed in writing to be bound by the Scheme. <p>and including, for the avoidance of doubt, the HBOS Open Offer Shares and, where the context requires, the A Ordinary Shares and (if any) the B Ordinary Shares but excluding the Deferred Shares and Scheme Share means any one of them.</p>
Scheme Shareholders	means the holders of Scheme Shares and Scheme Shareholder means any one of them.
Scheme Special Resolution	means resolution 2 to be proposed at the HBOS General Meeting in connection with the implementation of the Scheme.
Scottish Widows	means Scottish Widows plc, registered in Scotland (no. 199549).
Share Circular	has the meaning given in (vii) on page 4.
Stopper Period	means with respect to any Dividend Payment Date or the equivalent term in respect of any Parity Security, one calendar year from and including the earlier of the date (i) on which a full Dividend is not paid on the Preference Shares or

	(ii) on which a full scheduled dividend or distribution on any Parity Security has not been paid.
Supplementary Lloyds TSB Placing and Open Offer Prospectus	has the meaning given in (xi) on page 6.
Tier 1	has the meaning given to the term from time to time by the FSA.
USD Preference Shares	means the U.S.\$1,250,000,000 7.875% Non-Cumulative Preference Shares.
Upper Tier 2 Capital	has the meaning given to it by the FSA from time to time.
Voting Record Time	means the time fixed by the Court of Session in Edinburgh for determining the entitlement to vote at the Court Meeting as set out in notice thereof, which will be 6.00 pm on the day which is two days prior to the date of the Court Meeting and the HBOS General Meeting or, if the Court Meeting and/or the HBOS General Meeting is adjourned, 6.00 pm on the day which is two days after the date of such adjourned meeting.
2004 Preference Shares	means the 400 6% Non-Cumulative Redeemable Preference Shares of £0.25 par value each issued in 2004.
2008 Company Interim Results	has the meaning given in (iii) on page 4.

REGISTERED OFFICE OF THE COMPANY

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