

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN THE REPUBLIC OF ITALY.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached Exchange Offer Memorandum, whether downloaded, received by e-mail or otherwise received as a result of an electronic communication and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached document. In accessing the attached Exchange Offer Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE EXCHANGE OFFER (AS DEFINED HEREIN) WILL BE MADE, AND THE ECNs (AS DEFINED HEREIN) ARE BEING OFFERED AND WILL BE ISSUED, ONLY TO PERSONS (I) THAT ARE “QUALIFIED INSTITUTIONAL BUYERS”, AS THAT TERM IS DEFINED IN RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), IN A PRIVATE TRANSACTION IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (II) THAT ARE PERSONS OTHER THAN “U.S. PERSONS”, AS THAT TERM IS DEFINED IN RULE 902 UNDER THE SECURITIES ACT, IN OFFSHORE TRANSACTIONS IN RELIANCE UPON REGULATION S UNDER THE SECURITIES ACT (TOGETHER “ELIGIBLE HOLDERS”). ONLY ELIGIBLE HOLDERS ARE AUTHORIZED TO RECEIVE OR REVIEW THIS EXCHANGE OFFER MEMORANDUM OR TO PARTICIPATE IN THE EXCHANGE OFFER.

THE EXCHANGE OFFER IS NOT BEING MADE IN THE REPUBLIC OF ITALY. THE EXCHANGE OFFER AND THE ATTACHED EXCHANGE OFFER MEMORANDUM HAVE NOT BEEN SUBMITTED TO THE CLEARANCE PROCEDURES OF THE COMMISSIONE NAZIONALE PER LE SOCIETÀ E LA BORSA (“CONSOB”) PURSUANT TO ITALIAN LAWS AND REGULATIONS.

THE FOLLOWING EXCHANGE OFFER MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY PERSON OTHER THAN AN ELIGIBLE HOLDER AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE EXCHANGE OFFER MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS REQUIREMENT MAY RESULT IN A VIOLATION OF THE APPLICABLE LAWS OF THE UNITED STATES OR OTHER JURISDICTIONS.

Confirmation of Representations: In order to be eligible to view the Exchange Offer Memorandum or make an investment decision with respect to the ECNs (as defined herein), investors must certify that they are Eligible Holders. The Exchange Offer Memorandum is being sent to prospective investors on the basis that by accessing the Exchange Offer Memorandum, each prospective investor shall be deemed to have represented that (i) it is an Eligible Holder; (ii) it is not a person to whom it is unlawful to send the attached Exchange Offer Memorandum or to make an invitation under the Exchange Offer under applicable laws and (iii) that it consents to delivery of the Exchange Offer Memorandum by electronic transmission.

Each prospective investor is reminded that the Exchange Offer Memorandum has been delivered to it on the basis that it is a person into whose possession the Exchange Offer Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which it is located and prospective investors may not, nor are prospective investors authorised to, deliver the Exchange Offer Memorandum to any other person.

The materials relating to the Exchange Offer described in the Exchange Offer Memorandum do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an exchange offer be made by a licensed broker or dealer and any of the Dealer Managers (as defined herein) or any affiliate of such Dealer Managers is a licensed broker or dealer in that jurisdiction, the Exchange Offer shall be deemed to be made by such Dealer Manager(s) or such affiliate(s) on behalf of the Issuer in such jurisdiction. Under no circumstances shall the Exchange Offer Memorandum constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the ECNs in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Exchange Offer Memorandum may only be communicated to persons in the United Kingdom in circumstances where section 21(l) of the Financial Services and Markets Act 2000 does not apply to the Issuer. The Exchange Offer Memorandum may also not be distributed or made

available in the Republic of Italy and persons resident and or located in the Republic of Italy may not participate in the Exchange Offer. The Exchange Offer Memorandum does not constitute a disclosure document, prospectus or product disclosure statement within the meaning of the Australian Securities and Investments Commission.

The Exchange Offer Memorandum has been provided to or sent to prospective investors in an electronic form. Prospective investors are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealer Managers nor any person who controls any Dealer Manager nor any director, officer, employee or agent of any Dealer Manager nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Exchange Offer Memorandum distributed to prospective investors in electronic format and the hard copy version available to prospective investors on request from the Exchange Agents (as defined herein) or from the Dealer Managers.

EXCHANGE OFFER MEMORANDUM

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, any security, in any jurisdiction in which such an offer, an invitation or a solicitation is unlawful.

Not for distribution to any person located or resident in the Republic of Italy.

A copy of this document, which comprises a prospectus relating to the ECNs prepared in accordance with the Prospectus Rules made under section 73A of the 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.

Applications will be made to the FSA for the ECNs to be admitted to the Official List, and will be made to the London Stock Exchange for the ECNs to be admitted to trading on the London Stock Exchange's Regulated Market for listed securities. It is expected that admission to the Official List will become effective, and that dealings in the ECNs on the London Stock Exchange will commence at 8.00 a.m. London Time on 10 December 2009. Lloyds Banking Group, Lloyds TSB Bank, LBG Capital No.1 and LBG Capital No.2 accept responsibility for the information contained in this document. To the best of the knowledge of Lloyds Banking Group, Lloyds TSB Bank, LBG Capital No.1 and LBG Capital No.2 (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and this document does not omit anything likely to affect the import of such information.

Certain information in relation to the Group has been incorporated by reference into this document, as set out in Part XXVI ("Documentation Incorporated by Reference") of this document.

Questions and requests for assistance in connection with (i) the Exchange Offer may be directed to the Dealer Managers and (ii) the delivery of Exchange Instructions may be directed to Lucid or D.F. King, as applicable, the contact details for which are on the back cover page of this Exchange Offer Memorandum.

You should read the whole of this document and the documents incorporated herein by reference. In particular, your attention is drawn to the risk factors set out in Part II ("Risk Factors") of this document, which you should read in full.

LLOYDS
BANKING
GROUP



**Invitation by LBG Capital No.1 plc
to Offer to Exchange the Existing Securities**

for

**Enhanced Capital Notes
issued by LBG Capital No.1 plc or LBG Capital No.2 plc
unconditionally and irrevocably guaranteed by**

**Lloyds Banking Group plc or Lloyds Banking Group plc
and Lloyds TSB Bank plc**

Joint Global Co-ordinators and Lead Dealer Managers

BofA Merrill Lynch

UBS Investment Bank

Joint Structuring Advisers

BofA Merrill Lynch

Lloyds Banking Group

UBS Investment Bank

Dealer Managers

Citi

Goldman, Sachs & Co.

HSBC

J.P. Morgan

LBG Capital No.1 invites all Holders (subject to certain offer restrictions set out in Part VI ("The Exchange Offer – Offer Restrictions") of the Exchange Offer Memorandum) to Offer to Exchange any or all of their Existing Securities that are outstanding for ECNs up to the Maximum ECN New Issue Amount of U.S.\$800,000,000, upon the terms and subject to the conditions set out in this Exchange Offer Memorandum as specified in Part III ("Summary Offering Table").

THE EXCHANGE OFFER WILL COMMENCE ON 3 NOVEMBER 2009 AND WILL EXPIRE AT MIDNIGHT 12:00 A.M., NEW YORK CITY TIME, ON 7 DECEMBER 2009 (THE "EXPIRATION DEADLINE"), UNLESS THE EXCHANGE OFFER IS EXTENDED OR TERMINATED EARLIER BY LBG CAPITAL NO.1. THE "EARLY TENDER PERIOD" WILL COMMENCE ON 3 NOVEMBER 2009 AND WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON 20 NOVEMBER 2009 (THE "EARLY TENDER DEADLINE"). TENDERS MAY ONLY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON 20 NOVEMBER 2009 (THE "WITHDRAWAL DEADLINE"), EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN "TERMS OF THE EXCHANGE OFFER – WITHDRAWAL RIGHTS". THE EXCHANGE OFFER IS CONDITIONAL ON THE EXCHANGE OFFER CONDITIONS, AS FURTHER DESCRIBED HEREIN.

Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange. Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange. The ECNs will be issued on the Settlement Date, expected to be on or around 10 December 2009. Each Holder will also be entitled to receive any Accrued Interest Payment in respect of their Existing Securities so accepted for exchange which amounts will be paid in cash on the Settlement Date.

Existing Securities issued by HBOS plc and HBOS Capital Funding No.2 L.P. tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.1 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Existing Securities issued by BOS and Lloyds TSB Bank plc tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.2 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Lloyds TSB Bank plc. Upon expiration of the Exchange Offer Period, the relevant ECN Issuer may (but has no obligation to Holders to) accept Offers to Exchange, in which case such Offers to Exchange will be accepted in accordance with the Exchange Priority as set out in Appendix 1 to this Exchange Offer Memorandum.

The relevant ECN Issuer may (but has no obligation to Holders to) accept Offers to Exchange, in which case such Offers to Exchange will be accepted in accordance with the Exchange Priority, as set out in Appendix 1 to this Exchange Offer Memorandum, until either it has accepted

all of the Existing Securities validly offered and eligible for exchange or the aggregate principal amount of all series of ECNs to be issued in exchange for Existing Securities is the maximum such amount that can be issued without exceeding the Maximum ECN New Issue Amount, as waived or increased from time to time. Where the acceptance in accordance with the Exchange Priority of all valid Offers to Exchange of a series or class of Existing Securities would require a greater aggregate principal amount of ECNs to be issued than the Maximum ECN New Issue Amount, the relevant ECN Issuer will accept such Offers to Exchange on the following basis: (i) first, Existing Securities validly tendered and not validly withdrawn prior to the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class, on a *pro rata* basis up to the Maximum ECN New Issue Amount and (ii) second, if the Maximum ECN New Issue Amount has not been reached by the first step, Existing Securities that are validly tendered and not validly withdrawn after the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class, on a *pro rata* basis up to the Maximum ECN New Issue Amount.

On the Early Results Announcement Date, which is expected to be 23 November 2009, Lloyds Banking Group, acting on behalf of the ECN Issuers, intends to announce the aggregate principal amounts of each series or class of Existing Securities Offered for Exchange during the Early Tender Period.

On the Results Announcement Date, which is expected to be 8 December 2009, Lloyds Banking Group, acting on behalf of the ECN Issuers, intends to announce (i) whether valid Offers to Exchange pursuant to the Exchange Offer are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities that each ECN Issuer will be accepting for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a *pro rata* basis and, where accepted on a *pro rata* basis, the extent to which such Offers to Exchange will be scaled; (iv) each New Issue Amount; and (v) the Settlement Date.

Notwithstanding any other provision of this Exchange Offer Memorandum, the relevant ECN Issuer has no obligation to Holders to accept any or all Offers to Exchange and each of them may decide not to accept Offers to Exchange for any reason. Moreover, the relevant ECN Issuer will not accept any Offer to Exchange from Holders of Existing Securities unless (i) all resolution(s) as may be necessary to approve, effect and implement the Exchange Offer are passed at the Lloyds Banking Group General Meeting (or any adjournment of such meeting) and (ii) such Offer to Exchange relates to an aggregate principal amount of Existing Securities that, if such Offer to Exchange is accepted, will entitle the Holder to receive an aggregate principal amount of ECNs equal to or greater than U.S.\$100,000 (the "Minimum New Issue Amount").

LBG Capital No.1 may, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), extend, re-open, amend, waive any condition of or terminate the Exchange Offer at any time (subject to applicable law and as provided in this Exchange Offer Memorandum). Details of any such extension, re-opening, amendment, waiver (if permitted) or termination will be announced wherever applicable as provided in this Exchange Offer Memorandum as soon as reasonably practicable after the relevant decision is made.

Investors should only rely on the information contained in this document and the documents incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. Subject to the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, neither the publication of this document nor any acquisition of any security made under it shall, in any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this document or that the information in it and incorporated by reference herein is correct as of any subsequent date. LBG Capital No.1 will comply with its obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

The ECNs have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). As a result, Holders within the United States or who are U.S. persons will be eligible to participate in the Exchange Offer only if they are "qualified institutional buyers" ("QIBs") as defined in Rule 144A under the Securities Act ("Rule 144A"). Offers and issuances of the ECNs to non U.S. persons outside the United States will be made in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). The ECNs will not be eligible for resale pursuant to Rule 144A. The securities mentioned herein may not be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or any other Restricted Jurisdiction absent registration or an applicable exemption from the registration requirements of the relevant laws of the United States or any other Restricted Jurisdiction. There will be no public offer of such securities in the United States or any other jurisdiction. The ECNs will be initially issued and may be transferred only in blocks having an aggregate principal amount of U.S.\$100,000 and integral increments of U.S.\$1,000 in excess thereof. The ECNs are subject to transfer restrictions. See "Transfer Restrictions". The ECNs will be represented by beneficial interests in Global Certificates that will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg and will settle through the facilities of Euroclear and Clearstream, Luxembourg, but not through the facilities of the Depository Trust Company. In order to hold ECNs, investors must have, directly or indirectly, access to an account with Euroclear or Clearstream, Luxembourg.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Dealer Managers by the FSMA or the regulatory regime established thereunder, none of the Dealer Managers, Lucid Issuer Services Limited (“Lucid”) or D.F. King & Co., Inc. (“D.F. King” and together, the “Exchange Agents”) accept any responsibility whatsoever for the contents of this document and/or the information incorporated herein by reference, including in relation to the accuracy, completeness and/or verification thereof, and/or for any other statement made or purported to be made by any of them, or on behalf of any of them, in connection with the Group, the ECNs, the Exchange Offer or any other matter referred to in this document.

Each of the Dealer Managers and the Exchange Agents accordingly disclaims all and any liability whatsoever arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this document or any such statement.

Each Holder is solely responsible for making its own independent appraisal of all matters (including those relating to the Exchange Offer, the Existing Securities, the ECNs, the ECN Issuers, Lloyds Banking Group and Lloyds TSB Bank) as such Holder deems appropriate, and each Holder must make its own decision as to whether to Offer to Exchange Existing Securities and, if so, the aggregate principal amount of Existing Securities to Offer to Exchange. Each of the Exchange Agents are an agent of the ECN Issuers and owe no duty to any Holder. None of the Dealer Managers nor the Exchange Agents (or their respective directors, employees, representatives or affiliates) make any representation or recommendation whatsoever regarding this Exchange Offer Memorandum or the Exchange Offer, or any recommendation as to whether Holders of Existing Securities should participate in the Exchange Offer.

None of the trustees of any series of Existing Securities has reviewed or approved this Exchange Offer Memorandum or the terms of this Exchange Offer.

Holders may contact the Dealer Managers or the Exchange Agents for assistance in answering questions concerning the terms of the Exchange Offer at the respective addresses set out on the back cover page of this Exchange Offer Memorandum. Questions relating to the procedures for exchange, including the blocking of Existing Securities with DTC, Euroclear or Clearstream, Luxembourg, as the case may be, should be addressed exclusively to Lucid in the case of procedures relating to Euroclear and Clearstream, Luxembourg or D.F. King in the case of procedures relating to DTC. All procedures relating to the Exchange Offer may be conducted through, and all information relating to the Exchange Offer and the Existing Securities (including copies of this Exchange Offer Memorandum) may, subject as set out under Part VI (“The Exchange Offer – Offer Restrictions”) below, be obtained from, the Exchange Agents the contact details of whom are set out at the end of this Exchange Offer Memorandum.

Unless the context otherwise requires, all references in this Exchange Offer Memorandum to Holders include:

- (a) each Direct Participant in respect of the Existing Securities; and
- (b) each Beneficial Owner of the Existing Securities holding such Existing Securities, directly or indirectly, in an account in the name of a Direct Participant acting on such beneficial owner’s behalf,

except that, for the purposes of the exchange of Existing Securities for ECNs and the payment of the Accrued Interest Payment, to the extent the Beneficial Owner of the relevant Existing Securities is not a Direct Participant, the relevant ECNs and Accrued Interest Payment will only be delivered and paid to the relevant Direct Participant and the delivery and payment of such ECNs and Accrued Interest Payment to such Direct Participant will satisfy any obligations of the ECN Issuers, Lloyds Banking Group, the Exchange Agents, and the relevant Clearing System in respect of the exchange of such Existing Securities.

ECNs will only be issued through the facilities of Euroclear and Clearstream, Luxembourg. Therefore, Holders will not be able to receive any ECNs to which they may become entitled pursuant to the Exchange Offer unless they have access, directly or indirectly, to a securities account with Euroclear or Clearstream, Luxembourg. Holders who do not have such access and who wish to participate in the Exchange Offer should contact their broker, financial adviser, dealer, bank, custodian, trust company or other nominee as soon as possible to arrange access to an account at either Euroclear or Clearstream, Luxembourg, or contact D.F. King or Lucid, as applicable, for further information.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO US INVESTORS

The ECNs have not been and will not be registered under the Securities Act, and the ECNs are being offered and will be issued only to (i) “qualified institutional buyers”, as that term is defined in Rule 144A, in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act for transactions by an issuer not involving a public offering or to (ii) persons other than “U.S. persons”, as that term is defined in Rule 902 under the Securities Act, in offshore transactions in reliance upon Regulation S.

The Holders of Existing Securities who have certified to the ECN Issuers that they are eligible to participate in the Exchange Offer pursuant to at least one of the foregoing conditions are referred to as “Eligible Holders”. Only Eligible Holders are authorised to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. The ECNs are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws, pursuant to registration or exemption therefrom. The ECNs will not be eligible for resale pursuant to Rule 144A. See “Transfer Restrictions”. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

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

Each of Euroclear and Clearstream, Luxembourg, will periodically disseminate notices to its Direct Participants (as defined herein) setting forth restrictions on transferability and resale applicable to the ECNs. Eligible Holders Offering to Exchange Existing Securities for ECNs and any future transferee or purchaser of such ECNs will be subject to such restrictions on transferability and resale.

GENERAL NOTICE

The contents of this document and the information incorporated herein by reference should not be construed as legal, financial, accounting or tax advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. Each prospective investor should consult their own legal, financial, accounting or tax adviser for advice.

Part IV (“Other Important Information”) of this document contains important information which you should read.

None of The Commissioners of Her Majesty's Treasury, the Solicitor for the Affairs of Her Majesty's Treasury, UK Financial Investments Limited, the Asset Protection Agency, or any person controlled by or controlling any such person, or any director, officer, official or employee of any such person (each such person, a "Relevant Person") accepts any responsibility for the contents of, or makes any representation or warranty as to the accuracy, completeness or fairness of any information in this document. Each Relevant Person expressly disclaims any liability whatsoever for any loss howsoever arising from, or in reliance upon, the whole or any part of the contents of this document (or any supplement or amendment to it). No Relevant Person has authorised or will authorise the contents of this document, or has recommended or endorsed the merits of the offering of securities contemplated herein.

TABLE OF CONTENTS

	<i>Page</i>
PART I SUMMARY	8
PART II RISK FACTORS	14
PART III SUMMARY OFFERING TABLE	26
PART IV OTHER IMPORTANT INFORMATION	28
PART V LETTER FROM SIR WINFRIED BISCHOFF, CHAIRMAN OF LLOYDS BANKING GROUP PLC	31
PART VI THE EXCHANGE OFFER	53
PART VII OVERVIEW OF THE ENHANCED CAPITAL NOTES	78
PART VIII INFORMATION ON THE GROUP	85
PART IX INFORMATION ON THE ECN ISSUERS	86
PART X REGULATION AND SUPERVISION IN THE UNITED KINGDOM	88
PART XI HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS BANKING GROUP	89
PART A Audited Financial Information	89
PART B Unaudited Statutory Interim Information	91
PART XII HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS TSB BANK	92
PART A Audited Financial Information	92
PART B Unaudited Interim Information	93
PART XIII OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP	94
PART A For the Years Ended 31 December 2008, 2007 and 2006 and Selected Statistical and Other Information	94
PART B For the Six Months Ended 30 June 2009 and 2008	95
PART XIV HISTORICAL FINANCIAL INFORMATION RELATING TO THE HBOS GROUP	96
PART XV OPERATING AND FINANCIAL REVIEW RELATING TO THE HBOS GROUP	97
PART A Operating and Financial Review	97
PART B HBOS Group Selected Statistical and Other Information	98
PART XVI CAPITAL RESOURCES	99
PART A Lloyds Banking Group	99
PART B HBOS Group	100
PART C Capital Resources and Liquidity	101
PART XVII UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP AS AT 30 JUNE 2009	102
PART XVIII LOSS FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009	103
Part XIX TRANSFER RESTRICTIONS	104
PART XX CLEARING AND SETTLEMENT	107
PART XXI TAXATION CONSIDERATIONS	109
PART A United Kingdom	109
PART B Certain U.S. Federal Income Tax Considerations	112
PART C Other Jurisdictions	118
PART XXII ERISA CONSIDERATIONS	119
PART XXIII DIRECTORS, CORPORATE GOVERNANCE AND EMPLOYEES	121
PART XXIV ADDITIONAL INFORMATION	122
PART XXV GENERAL INFORMATION	123
PART XXVI DOCUMENTATION INCORPORATED BY REFERENCE	125
PART XXVII DEFINITIONS	130
APPENDIX 1 EXCHANGE PRIORITY	140

APPENDIX 2 PART A – Terms and Conditions of the ECNs	<i>Page</i> 141
PART B – Pricing Schedules Relating to the ECNs	186
APPENDIX 3 ADDITIONAL PROVISIONS RELATING TO THE ECNs WHILE IN GLOBAL FORM	193
APPENDIX 4 – RECENT PRICES OF EXISTING SECURITIES	195

PART I

SUMMARY

THE FOLLOWING SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS EXCHANGE OFFER MEMORANDUM. ANY DECISION TO PARTICIPATE IN THE EXCHANGE OFFER SHOULD BE BASED ON A CONSIDERATION OF THIS EXCHANGE OFFER MEMORANDUM, AND THE DOCUMENTS INCORPORATED BY REFERENCE, AS A WHOLE.

Where a claim relating to information contained in this document is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.

Summary of the Exchange Offer

Exchange Offer

LBG Capital No.1 invites all Holders (subject to certain offer restrictions described herein) to Offer to Exchange their Existing Securities upon the terms and subject to the conditions set out in this Exchange Offer Memorandum for ECNs.

Upon expiration of the Exchange Offer Period, Offers to Exchange will, if accepted, be accepted in accordance with the Exchange Priority. Where acceptance of all Offers to Exchange in full would cause the Maximum ECN New Issue Amount to be exceeded, Offers to Exchange will, if accepted, be accepted on the following basis: (i) first, Existing Securities validly tendered prior to the Early Tender Deadline will be accepted in accordance with the Exchange Priority and on a *pro rata* basis up to the Maximum ECN New Issue Amount and (ii) second, if the Maximum ECN New Issue Amount has not been reached by the first step, Existing Securities that are validly tendered after the Early Tender Deadline will be accepted in accordance with the Exchange Priority and on a *pro rata* basis up to the Maximum ECN New Issue Amount. LBG Capital No.1 reserves the right, subject to applicable laws, to amend the terms of the Exchange Offer, including the right to increase or waive the Maximum ECN New Issue Amount.

Existing Securities

Certain specified classes of Tier 1 and Upper Tier 2 securities.

ECNs

Enhanced Capital Notes.

Maximum ECN New Issue Amount

The maximum aggregate principal amount of all series of ECNs to be issued by the ECN Issuers in exchange for Existing Securities, being an amount equivalent to U.S.\$800,000,000, save that LBG Capital No.1 shall have the ability to waive or increase such amount in its sole discretion.

Minimum New Issue Amount

Holders wishing to participate in the Exchange Offer are required to Offer to Exchange a minimum aggregate principal amount of Existing Securities, which, if such Offer to Exchange is accepted, will entitle such Holder to receive a minimum aggregate principal amount of ECNs equal to or greater than U.S.\$100,000.

Exchange Offer Period

From 3 November 2009 to the Expiration Deadline, which is expected to be 7 December 2009, unless the Exchange Offer Period is extended.

Early Tender Period

From 3 November 2009 to the Early Tender Deadline, which is expected to be 20 November 2009, unless the Early Tender Period is extended.

Withdrawal Rights	Except as otherwise set out in this Exchange Offer Memorandum, Existing Securities Offered to Exchange may only be withdrawn prior to the Withdrawal Deadline, which is expected to be 20 November 2009.
Early Exchange Ratio	Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange.
Late Exchange Ratio	Holders who validly tender their Existing Securities after the Early Tender Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange.
Conversion Price	The Conversion Price will be announced on 27 November 2009 and will be equal to the product of (i) the greater of (a) the arithmetic average of the daily per share Volume-Weighted Average Price of Ordinary Shares on the London Stock Exchange (calculated in sterling) for each of the five consecutive trading days commencing on (and including) 11 November 2009, and ending on (and including) 17 November 2009, and (b) 90 per cent. of the closing price of an Ordinary Share on the London Stock Exchange on 17 November 2009, and (ii) the Rights Issue Factor. The Conversion Price will be subject to adjustment from time to time as set out in the ECN Deed Poll.
Accrued Interest	Each Holder will be entitled to receive an Accrued Interest Payment in respect of their Existing Securities which are accepted for exchange.
Early Results Announcement	On the Early Results Announcement Date, which is expected to be 23 November 2009, the Group intends to announce the aggregate principal amounts of each series or class of Existing Securities tendered and Offered for Exchange during the Early Tender Period.
Results Announcement	On the Results Announcement Date, which is expected to be 8 December 2009, the Group intends to announce (i) whether valid Offers to Exchange are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities that will be accepted for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a pro rata basis and the extent of any scaling; (iv) each New Issue Amount; and (v) the Settlement Date.
Settlement Date	The ECNs will be issued on the Settlement Date, which is expected to be on or around 10 December 2009.
Offer Restrictions	The Exchange Offer is subject to offer restrictions. In the United States, only Eligible Holders are authorised to receive this Exchange Offer Memorandum or to participate in the Exchange Offer.
Summary of the Key Features of the ECNs	
<i>Capitalised terms used in this Summary of the ECNs shall have the same meanings as set out in the ECN Conditions.</i>	
Issuers	LBG Capital No.1 or LBG Capital No.2, as indicated in the relevant Pricing Schedule.
Guarantors	Lloyds Banking Group or Lloyds Banking Group and Lloyds TSB Bank, as indicated in the relevant Pricing Schedule.
Maturity Date	As indicated in the relevant Pricing Schedule.

Interest Basis/Interest Payment Dates	As indicated in the relevant Pricing Schedule.
Status of the ECNs	Direct, unsecured and subordinated obligations of the relevant ECN Issuer.
Status of the relevant Guarantee	Irrevocable and unconditional guarantee of the due and punctual payment of all sums from time to time payable by the relevant ECN Issuer. The obligations of each Guarantor under the Guarantee constitute direct and unsecured obligations of that Guarantor.
Early Redemption	The ECNs are redeemable before the Maturity Date upon the occurrence of a Tax Event or a Capital Disqualification Event.
Mandatory Conversion	<p>If the Conversion Trigger shall occur (prior to the occurrence of a Relevant Event), each ECN will be converted on the Conversion Date into Ordinary Shares at the applicable Conversion Price.</p> <p>The ECNs are not convertible at the option of ECN Securityholders at any time.</p> <p>The “Conversion Trigger” shall occur if, at any time, as disclosed in the latest published annual or semi-annual consolidated financial statements of Lloyds Banking Group or as otherwise publicly disclosed by Lloyds Banking Group at any time, Lloyds Banking Group’s consolidated core Tier 1 Ratio is less than 5 per cent.</p>
Relevant Event	<p>If the Conversion Trigger occurs at any time after the occurrence of a Qualifying Relevant Event, the ECNs will be convertible into Relevant Shares of the Approved Entity at the relevant Conversion Price.</p> <p>Following the occurrence of a Non-Qualifying Relevant Event (unless the Conversion Trigger has already occurred), outstanding ECNs will not be subject to Conversion at any time, notwithstanding that a Conversion Trigger may occur subsequently.</p> <p>A “Relevant Event” shall occur if any person or persons acting in concert (as defined in the Takeover Code of the United Kingdom Panel on Takeovers and Mergers), acquires control of Lloyds Banking Group (other than as a result of an Exempt Newco Scheme).</p> <p>A “Qualifying Relevant Event” is a Relevant Event where (i) the Acquiror is an Approved Entity and (ii) the New Conversion Condition is satisfied.</p> <p>A “Non-Qualifying Relevant Event” is a Relevant Event that is not a Qualifying Relevant Event.</p>
Form	Each series of ECNs will be issued in registered form and will initially be available in book-entry form only.
Denomination	U.S.\$100,000 and integral increments of U.S.\$1,000 in excess thereof.
Additional Amounts	Payments in respect of the ECNs will be made without withholding or deduction for or on account of United Kingdom taxes, unless the withholding or deduction is required by law, in which event there shall be a gross up, subject to customary exceptions.
Credit Ratings	It is expected that the ECNs guaranteed by Lloyds TSB Bank will be assigned ratings of BB by Standard & Poor’s, Ba2 by Moody’s and BB by Fitch, and that the ECNs guaranteed by Lloyds Banking Group will be assigned ratings of BB- by Standard & Poor’s, Ba3 by Moody’s and BB by Fitch. A rating is not a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Transfer Restrictions

The ECNs are subject to transfer restrictions. The ECNs will not be eligible for resale pursuant to Rule 144A. The ECNs will be represented by beneficial interests in Global Certificates that will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg and will settle through the facilities of Euroclear and Clearstream, Luxembourg, but not through the facilities of the Depository Trust Company. In order to hold ECNs, investors must have, directly or indirectly, access to an account with Euroclear or Clearstream, Luxembourg. See "Transfer Restrictions".

Current Trading, Trends and Prospects

On 5 August 2009, Lloyds Banking Group announced its interim results for the half year ended 30 June 2009. Despite the significant impairments which were announced at that time, the Company was able to demonstrate the continued resilience of its core business.

As announced in the Interim Management Statement, the Group has continued to deliver a good revenue performance in the third quarter of 2009, with similar trends, excluding gains on liability management, to those delivered in the first half of the year. The Group's banking net interest margin has shown clear signs of stabilising in the third quarter of 2009, compared to the first half of the year. The Group continues to deliver a strong cost performance and, in addition, the Board feels that excellent progress has continued to be made on the integration of the enlarged Group, with the achievement of a higher run-rate of cost synergies than those previously announced. The overall run-rate of impairments has slowed in the third quarter of the year. As a result, the Group continues to expect impairments to fall significantly in the second half of 2009, compared to the first half of the year. As previously announced, the Group continues to expect to report a loss before tax for 2009, excluding the impact of the £11.2 billion credit relating to negative goodwill.

As reported in the Interim Results News Release, the Group has identified approximately £300 billion of assets associated with non-relationship lending and investments, including business which is outside its current risk appetite, which may have been earmarked for GAPS protection were the Group to participate in the scheme. The Group's approach to managing these assets will be the same whether or not it moves forward with the Proposals or participates in GAPS. It is the Group's intention to manage such assets for value and run them down over time given the current economic climate. Over the next five years, the Group expects to achieve a reduction in such assets of approximately £200 billion, which equates to approximately 20 per cent. of the Group's total balance sheet assets as at 30 June 2009. The impact of running down those assets is not expected to have a significant impact on the Group's income over the five year period.

Selected Financial Information¹

For the year ended 31 December 2008, Lloyds Banking Group had total income, net of insurance claims, of £9.9 billion (compared with £10.7 billion and £11.1 billion, respectively, for the years ended 31 December 2007 and 2006) and profit after tax of £0.8 billion (compared with £3.3 billion and £2.9 billion, respectively, for the years ended 31 December 2007 and 2006).

As at 31 December 2008, Lloyds Banking Group had total assets of £436.0 billion (compared with £353.3 billion and £343.6 billion, respectively, as at 31 December 2007 and 2006) and shareholders' equity of £9.4 billion (compared with £12.1 billion and £11.2 billion, respectively, as at 31 December 2007 and 2006).

As at 31 December 2008, Lloyds Banking Group's risk asset ratios were 11.2 per cent. for total capital (compared with 11.0 per cent. as at 31 December 2007), 8.0 per cent. for tier 1 capital (compared with 9.5 per cent. as at 31 December 2007) and 5.6 per cent. for core tier 1 capital (compared with 7.4 per cent. as at 31 December 2007). The risk asset ratios as at 31 December 2008 and 31 December 2007 have been calculated under the Basel II framework.

As at 31 December 2006, the Lloyds Banking Group's risk asset ratios, calculated under the Basel I framework, were 10.7 per cent. for total capital and 8.2 per cent. for tier 1 capital.

¹ This data has been extracted without material adjustment from the audited 2007 and 2008 annual reports of the Company, the 2007 and 2008 audited HBOS annual report, the unaudited but reviewed interim statutory results and the unaudited but reviewed 2009 interim statutory results of HBOS.

For the year ended 31 December 2008, HBOS reported net operating income of £3.6 billion (compared with £21.3 billion and £22.7 billion, respectively, for the years ended 31 December 2007 and 2006) and statutory loss before tax of £10.8 billion (compared with profit before tax of £5.5 billion and £5.7 billion, respectively, for the years ended 31 December 2007 and 2006). As at 31 December 2008, HBOS reported total assets of £704.6 billion (compared with £667.0 billion and £591.8 billion, respectively, as at 31 December 2007 and 2006) and shareholders' equity of £11.5 billion (compared with £21.8 billion and £20.7 billion, respectively, as at 31 December 2007 and 2006).

For the six months ended 30 June 2009, Lloyds Banking Group had total income, net of insurance claims, of £9.8 billion (compared with £4.6 billion for Lloyds Banking Group for the six months ended 30 June 2008 and £5.5 billion for the HBOS Group for the six months ended 30 June 2008) and profit before tax of £6.0 billion (compared with a profit before tax of £0.6 billion for Lloyds Banking Group for the six months ended 30 June 2008 and £0.8 billion for the HBOS Group for the six months ended 30 June 2008).

As at 30 June 2009, Lloyds Banking Group had total assets of £1,063.1 billion (compared with £436.0 billion for Lloyds Banking Group as at 31 December 2008 and £704.6 billion for the HBOS Group as at 31 December 2008) and net assets of £35.0 billion (compared with £9.7 billion for Lloyds Banking Group as at 31 December 2008 and £12.8 billion for the HBOS Group as at 31 December 2008).

As at 30 June 2009, Lloyds Banking Group's risk asset ratios were 10.6 per cent. for total capital (compared with 11.2 per cent. as at 31 December 2008), 8.6 per cent. for tier 1 capital (compared with 8.0 per cent. as at 31 December 2008) and 6.3 per cent. for core tier 1 capital (compared with 5.6 per cent. as at 31 December 2008). The risk asset ratios as at 30 June 2009 and 31 December 2008 have been calculated under the Basel II framework.

Risk Factors

The Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks described in "Part II – Risk Factors", certain of which are summarized below:

Risks relating to the Group

- risks arising from general and sector specific economic conditions in the UK and other markets and further adverse economic developments;
- risks associated with HM Treasury's shareholding;
- risks relating to the aid given by HM Treasury to the Group being subject to state aid review, the outcome of which is uncertain and which may lead to the Group having to repay the aid or imposition of conditions on the Group that may be significantly adverse to its interests and is expected to prevent the Group from paying dividends on its Ordinary Shares until 31 January 2012;
- risks associated with future legislative and regulatory changes;
- risks associated with regulatory capital requirements;
- risks arising from certain undertakings provided to HM Treasury in relation to the operation of the Group's business;
- risks of material negative changes to the estimated fair values of financial assets of the Group;
- risks of failing to realise benefits from, and incurring unanticipated costs associated with, the Acquisition;
- risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour;
- risks relating to contributing to compensation schemes in respect of banks and other authorised financial services firms in the UK that are unable to meet their obligations to customers;
- risks of assumptions and estimates on which the Group's financial statements are based being wrong;

- risks relating to highly competitive market environments and ability to respond effectively to market pressures; and
- risks associated with changes in taxation rates or law or interpretation of the law.

Risks relating to the Exchange Offer

- likelihood as to coupon suspension and capital calls;
- differences between the Existing Securities and the ECNs;
- ECNs will be issued through Euroclear and Clearstream, Luxembourg;
- Holders of Definitive Dollar Existing Notes must participate through Euroclear and Clearstream, Luxembourg;
- uncertainty as to the credit ratings and trading markets for the Existing Securities not exchanged;
- no obligation to Holders to accept Offers to Exchange;
- the ECN Issuers may not accept all Existing Securities validly Offered to Exchange in the Exchange Offer, and any Existing Securities validly Offered to Exchange after the Early Tender Deadline may be subject to a lower acceptance priority;
- responsibility of Holders for complying with the procedures of the Exchange Offer;
- completion, termination and amendment of the Exchange Offer;
- withdrawal by Holders of Exchange Instructions;
- restriction on transfer of Existing Securities;
- compliance by Holders with Offer Restrictions; and
- responsibility to consult advisers.

Risks relating to the Proposals

- risk of the Proposals not being approved by the Ordinary Shareholders at the General Meeting;
- risk that even if the Proposals are completed they may not achieve their objectives; and
- the dilutive effect of the Proposals is difficult to predict.

Risks relating to the ECNs

- ECNs are mandatorily convertible into Ordinary Shares in certain prescribed circumstances;
- ECN Securityholders have limited anti-dilution protection;
- the obligations of the relevant ECN Issuer and the relevant Guarantor or Guarantors under the ECNs are subordinated;
- redemption risk;
- The Company may issue further ECNs with different terms;
- there is no active trading market for the ECNs and potentially one may not develop;
- because the Global Certificates will be held by or on behalf of Euroclear or Clearstream, Luxembourg investors will have to rely on their procedures for transfer, payment, voting and communication with the relevant ECN Issuer;
- The IRS could seek to characterize the ECNs other than as equity in the Company for U.S. federal income tax purposes; and
- the ECNs may be Deeply Discounted Securities.

PART II

RISK FACTORS

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

This section describes the risk factors which are considered by the ECN Issuers, Lloyds TSB Bank, Lloyds Banking Group and their respective Directors to be material in relation to the Group, the Exchange Offer and the ECNs.

These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the ECN Issuers, Lloyds TSB Bank, Lloyds Banking Group and their respective Directors, or which they currently deem immaterial, may also have a material adverse effect on the Group's operating results, financial condition and prospects. The information given is as at 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 "Forward-Looking Statements" on page 29 of this document.

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.

1 Risks relating to the Group

Risk factors relating to the Group are set out on pages 11 to 30 of Part II ("Risk Factors") of the Rights Issue Prospectus, and are incorporated by reference into this document.

2 Risks relating to the Exchange Offer

The following section does not describe all of the risks for Holders of either participating or not participating in the Exchange Offer. Prior to making a decision as to whether to participate, Holders should consider carefully, in light of their own financial circumstances and investment objectives, all the information set out in this Exchange Offer Memorandum and, in particular, the following risk factors.

2.1 Likelihood of coupon suspension and capital calls of certain Existing Securities

The Company, together with HM Treasury, has now finalised its negotiations with the European Commission around the restrictions to be required in relation to the payment of coupons on the Existing Securities and on the exercise of any optional issuer call rights ("capital calls") applicable to Existing Securities. These negotiations are part of HM Treasury's and the Company's detailed negotiations with the European Commission in relation to the terms of a restructuring plan which is required in the context of a review resulting from the state aid which has been received by the Group.

These negotiations have made clear that the European Commission intends to require a commitment that members of the Group will not make a discretionary payment of coupons or dividends on hybrid capital securities issued by members of the Group (other than members of the Company's insurance group). The Company believes that holders of the five upper tier 2 Existing Securities will be adversely affected by the Group's inability to make such payments. The securities affected are those securities on which the Group currently has – or will within a contractually defined period have – no obligation (by reason of the terms of either those or other securities) to make payments of coupons or dividends. The affected securities also include the majority of Tier 1 and upper tier 2 securities of the Group and Group entities. The Company believes that the relevant scheduled coupon or dividend payment dates that will be subject to the commitment not to pay dividends or coupons will be those falling within the two year period commencing 31 January 2010 (the "Affected Period"). The Company believes, however, that interest payments on the new ECNs and other new issues of hybrid capital securities will not be affected by these restrictions.

Further, the Company, together with HM Treasury, has now finalised its negotiations with the European Commission on the treatment of capital calls. The Company believes that those hybrid capital securities issued by members of the Group (other than members of the Company's insurance group) which contain capital calls falling within the Affected Period will also be affected by the commitment expected to be required by the European Commission and therefore that the Group will not be able to exercise call options on any capital securities issued by members of the Group (other than members of the Company's insurance group) on their respective optional redemption dates during such two year period.

The Company expects to receive a formal ruling from the European Commission on the state aid position and the restructuring plan by the end of 2009. Since the ultimate decision regarding the commitments in relation to discretionary coupons and dividend payments and capital calls will be taken by the College of Commissioners, the Company is unable to give any assurances as to the outcome of the discussions referred to above.

It is the current intention of the Company that any decision to exercise capital calls in any Existing Securities that remain outstanding following the Affected Period and which belong to a class or series of Applicable Securities, will be made on an economic basis. As used above, "Applicable Securities" means Existing Securities belonging to a class or series (a) the holders of some of which had their Offers to Exchange accepted in the Exchange Offers in accordance with the Exchange Priority set out in Appendix 1 hereto or the corresponding priority for the Non-U.S. Exchange Offer or (b) which appears in the relevant Exchange Priority ahead of the lowest ranking class or series falling within (a) above.

2.2 The form and terms and conditions of the ECNs are substantially different from those of the Existing Securities.

The full terms and conditions of the ECNs (subject to completion and amendment) are set out in this Exchange Offer Memorandum. However, this Exchange Offer Memorandum does not set out a summary of the differences between the Existing Securities and the ECNs. Holders who are in any doubt as to the terms of their Existing Securities and the differences to the terms of the ECNs are recommended to inform themselves about the terms of their Existing Securities and seek financial, accounting, tax and legal advice from their professional advisers prior to participating in the Exchange Offer as they deem appropriate. Holders should carefully consider the differences (which include, *inter alia*, in some cases the payment dates, the maturity dates, the ranking, obligations with respect to interest payments, the redemption prices in the event of tax or capital disqualification redemption triggers, the identity of the obligor and the form in which the ECNs are issued and in the case of all ECNs, the inclusion of an automatic conversion feature into Ordinary Shares in certain prescribed circumstances). Holders should also consider the tax implications of offering their securities to exchange and, in particular, whether they may be subject to tax liabilities in respect of a holding of ECNs which are different from, or higher than, tax liabilities they would have had if they retained their Existing Securities.

2.3 ECNs will be issued only through Euroclear or Clearstream, Luxembourg. Accordingly, Holders who do not have access to a Euroclear or Clearstream, Luxembourg account will not be able to receive ECNs pursuant to the terms of the Exchange Offer.

Each series of ECNs issued pursuant to the Exchange Offer will be initially represented by one or more Global Certificates, which will be held by a common depository on behalf of Euroclear or Clearstream, Luxembourg. Holders who Offer to Exchange their Existing Securities for ECNs must maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such ECNs can be traded, and to which any Accrued Interest Payment may be credited. Neither ECN Issuer will issue ECNs in definitive form or which are cleared through DTC. Accordingly, Holders who do not have access to a Euroclear or Clearstream, Luxembourg account would need to procure such access in order to receive any ECNs to which they may become entitled pursuant to the Exchange Offer. **Offers to Exchange Existing Securities for ECNs received from Holders which do not provide details of a valid Euroclear or Clearstream, Luxembourg account may not be accepted by the relevant ECN Issuer.**

2.4 Holders of Definitive Dollar Existing Notes must participate through Euroclear or Clearstream, Luxembourg.

Holders of Definitive Dollar Existing Notes must, in order to be eligible to participate in the Exchange Offer, (i) arrange for the relevant principal amount of Definitive Dollar Existing Notes which they wish to Offer to Exchange, to be deposited with a specialised depository on behalf of either Euroclear or Clearstream, Luxembourg, and (ii) maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such Definitive Dollar Existing Notes can be traded, and to which, if the relevant Holder has Offered to Exchange its Definitive Dollar Existing Notes for ECNs, such ECNs, and any Accrued Interest, may be credited.

Neither Lloyds TSB Bank nor BOS intends to prepare or print additional Definitive Dollar Existing Notes in respect of any principal amount of such Definitive Dollar Existing Notes which is Offered for Exchange, but which is not accepted by the relevant ECN Issuer. Any such principal amount of Definitive Dollar Existing Notes not accepted for exchange will remain deposited with the relevant specialised depository on behalf of either Euroclear or Clearstream, Luxembourg. Holders who do not submit their entire holding of Definitive Dollar Existing Notes to a specialised depository when Offering to Exchange their Definitive Dollar Existing Notes may therefore hold their outstanding Definitive Dollar Existing Notes in both definitive form and in either Euroclear or Clearstream, Luxembourg.

Holders of Definitive Dollar Existing Notes who do not have access to an account with Euroclear or Clearstream, Luxembourg (either directly or through a Direct Participant or other Intermediary) or who do not deposit the Definitive Dollar Existing Notes which they wish to Offer to Exchange with a specialised depository, on behalf of either Euroclear or Clearstream, Luxembourg, will not be able to submit a Clearing System Exchange Instruction to Lucid and will not be eligible to participate in the Exchange Offer.

2.5 The trading markets for the Existing Securities that remain outstanding following the completion of the Exchange Offer may be significantly more limited.

Although the Existing Securities which are not Offered for Exchange and accepted are expected to continue to be listed, to the extent that Existing Securities are exchanged for ECNs, the trading markets for the Existing Securities which remain outstanding following the completion of the Exchange Offer may be significantly more limited. Such outstanding Existing Securities may command a lower price than a comparable issue of securities with greater market liquidity. A reduced market value may also make the trading price of the remaining Existing Securities more volatile. As a result, the market price for the Existing Securities that remain outstanding after the completion of the Exchange Offer may be materially and adversely affected as a result of the Exchange Offer. In addition, it is possible that the credit ratings of certain of the Existing Securities may be affected, although it is not expected that any such changes would affect adversely other credit ratings of Group companies.

Holders of Existing Securities issued or guaranteed by HBOS or BOS currently have access to the cashflows of HBOS and BOS, respectively, and payments on certain of such securities are conditional upon the solvency and capital position of HBOS and BOS, respectively. As part of the integration of HBOS into the Group, the business and operations of the enlarged Group may be reconfigured by Lloyds Banking Group, including by means of the transfer of certain businesses and operations out of the HBOS Group or as part of a corporate restructuring.

2.6 The relevant ECN Issuer is under no obligation to Holders to accept Offers to Exchange.

Offers to Exchange may be rejected by the relevant ECN Issuer for any reason and the relevant ECN Issuer is not under any obligation to Holders to furnish any reason or justification for refusing to accept an Offer to Exchange. For example, Existing Securities Offered for Exchange may be rejected if the Exchange Offer is terminated, if the Exchange Offer does not comply with the relevant requirements of a particular jurisdiction, if any of the Exchange Offer Conditions are not met, if the Offer to Exchange is in respect of a principal amount which is less than the Minimum New Issue Amount, or for other reasons.

2.7 Minimum New Issue Amount Requirement.

Holders wishing to participate in the Exchange Offer are required to Offer to Exchange a minimum aggregate principal amount of Existing Securities, which, if such Offer to Exchange is accepted, will entitle such Holder to receive a minimum aggregate principal amount of ECNs equal to or greater than U.S.\$100,000. Offers to Exchange corresponding to an aggregate principal amount of ECNs of less than the Minimum New Issue Amount will not be accepted by the relevant ECN Issuer.

2.8 Holders are responsible for complying with the procedures of the Exchange Offer.

Holders are responsible for complying with all of the procedures for submitting Exchange Instructions pursuant to the terms of this Exchange Offer Memorandum. None of the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents assumes any responsibility for informing Holders of irregularities with respect to Exchange Instructions from the Holders.

2.9 The ECN Issuers may not accept all Existing Securities validly Offered to Exchange in the Exchange Offer, and any Existing Securities validly Offered to Exchange after the Early Tender Deadline will be subject to a lower acceptance priority.

The ECN Issuers will issue no more than the Maximum ECN New Issue Amount in the Exchange Offer save that LBG Capital No.1 shall have the ability to waive or increase such amount in its sole discretion, subject to applicable laws. Depending on the aggregate principal amount of Existing Securities validly Offered to Exchange in the Exchange Offer, the ECN Issuers may have to prorate certain of the Existing Securities accepted in the Exchange Offer to remain within this limit. In any proration, the ECN Issuers will give preference to Existing Securities validly Offered to Exchange prior to the Early Tender Deadline, and will accept Existing Securities validly Offered to Exchange after the Early Tender Deadline only if the ECN Issuers accept 100% of the Existing Securities that are validly Offered to Exchange prior to the Early Tender Deadline and not subsequently validly withdrawn. As a result, depending upon the level of participation of Holders by the Early Tender Deadline, some or all of the Existing Securities of Holders who validly Offered to Exchange after the Early Tender Deadline, even if such Existing Securities have a higher Exchange Priority than Existing Securities tendered before the Early Tender Deadline, may not be accepted by the ECN Issuers at all or such securities may be subject to a significantly greater likelihood of proration and/or a significantly higher level of proration than would have been the case without such an acceptance priority. See "Terms of the Exchange Offer – Exchange Offer."

2.10 No assurance can be given that the Exchange Offer will be completed, and LBG Capital No.1 may extend, re-open, amend, terminate or withdraw the Exchange Offer.

Completion of the Exchange Offer is conditional upon the satisfaction or waiver of the conditions to the Exchange Offer set out herein. In addition, subject as provided herein, LBG Capital No.1, may, with the prior consent of the Dealer Managers and subject to applicable law, extend, re-open, amend, terminate or withdraw the Exchange Offer (including, but not limited to, amendments to the ECN Conditions) at any time prior to the announcement of whether it or LBG Capital No.2 accepts valid Offers to Exchange pursuant to the Exchange Offer, which Lloyds Banking Group, acting on behalf of the ECN Issuers, expects to make on the Results Announcement Date and LBG Capital No.1 may, in its sole discretion, waive conditions to the Exchange Offer after this date.

2.11 Exchange Instructions may only be withdrawn after the Withdrawal Deadline under limited circumstances.

Withdrawals of Exchange Instructions will only be accepted if validly submitted in accordance with the instructions contained herein and including to the relevant Clearing System prior to the Withdrawal Deadline or, in the limited circumstances described in Part VI ("The Exchange Offer – Terms of the Exchange Offer – Withdrawal Rights"), after the Withdrawal Deadline but prior to the Expiration Deadline (or any earlier deadlines set by such Clearing System or any relevant Intermediaries).

2.12 Restrictions on transfer of Existing Securities will apply from the time of submission of an Exchange Instruction to the relevant Clearing System.

When considering whether to participate in the Exchange Offer, Holders should take into account that restrictions on the transfer of Existing Securities by Holders will apply from the time of submission of an Exchange Instruction to the Clearing Systems. A Holder will, on submitting a Clearing System Exchange Instruction to Euroclear or Clearstream, Luxembourg, agree that its Existing Securities will be blocked in the relevant account in the relevant Clearing System from the date the Clearing System Exchange Instruction is submitted to Euroclear or Clearstream, Luxembourg until the earlier of (i) the time of settlement on the Settlement Date and (ii) the date of any termination of the relevant Exchange Offer (including where such Existing Securities are not accepted by the relevant ECN Issuer for exchange) or on which the Clearing System Exchange Instruction is withdrawn, in the circumstances in which such withdrawal is permitted.

Additionally, Holders who hold Existing Securities through DTC will not be able to effect transfers of their tendered Existing Securities upon book-entry transfers of such Existing Securities into D.F. King's account at DTC pursuant to the procedures for book-entry transfer described herein.

2.13 Compliance by Holders with Eligibility and Transfer Restrictions.

Only Eligible Holders are eligible to review or receive this Exchange Offer Memorandum or to participate in this Exchange Offer. Holders are referred to the offer restrictions on pages 60 to 63 and the transfer restrictions on pages 105 to 107 of this Exchange Offer Memorandum and as set forth in the Letter of Transmittal. Non-compliance with the eligibility requirements or the offer and transfer restrictions by a Holder could result in, among other things, an inability to validly Offer to Exchange Existing Securities, the unwinding of trades and/or heavy penalties. The Trust Deed will contain provisions entitling the ECN Issuer or Lloyds Banking Group to require the holder or beneficial owner of ECNs represented by an interest in the Restricted Global Certificate (as defined in the Trust Deed) to sell its interest in such ECNs or to arrange for such interest to be sold on behalf of the relevant holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) who, in the judgement of Lloyds Banking Group, has purchased its ECNs in a transaction that is not exempt from the registration requirements of the Securities Act. In any such case, neither the ECN Issuer nor Lloyds Banking Group shall have any liability or responsibility for the timing of any such sale or for the price at which any such ECNs are sold. If any such sale is effected pursuant to arrangements made by the ECN Issuer or Lloyds Banking Group, the ECN Issuer or Lloyds Banking Group will arrange for the net proceeds of any such sale (after deduction in respect of expenses and any taxes) to be delivered to the relevant holder of the ECNs at such time as the Issuer or LBG may determine.

2.14 Responsibility to consult advisers.

Holders should consult their own tax, accounting, financial and legal advisers as they may deem appropriate regarding the suitability to themselves of the tax, accounting, financial and legal consequences of participating or declining to participate in the Exchange Offer and an investment in the ECNs. In particular, due to the number of different jurisdictions where tax laws may apply to a Holder and save as set out in Risk Factors 4.20, 4.21 and 4.22 below and in Part XXI ("Taxation Considerations"), this Exchange Offer Memorandum does not discuss the tax consequences for Holders arising from the exchange of their Existing Securities in the Exchange Offer and the receipt of ECNs and any Accrued Interest Payment, nor as holders of the ECNs. Holders are urged to consult their own professional advisers regarding the possible tax consequences under the laws of the jurisdictions that apply to them. Holders are liable for their own taxes and have no recourse to the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents with respect to taxes arising in connection with the Exchange Offer.

HOLDERS ARE ADVISED TO CHECK WITH ANY BANK, SECURITIES BROKER, CLEARING SYSTEM OR OTHER INTERMEDIARY THROUGH WHICH THEY HOLD THEIR EXISTING SECURITIES WHETHER SUCH INTERMEDIARY APPLIES DIFFERENT DEADLINES FOR ANY OF THE EVENTS SPECIFIED IN THIS EXCHANGE OFFER MEMORANDUM, AND THEN TO

ALLOW FOR SUCH DEADLINES IF SUCH DEADLINES ARE PRIOR TO THE DEADLINES SET OUT IN THIS EXCHANGE OFFER MEMORANDUM.

3 Risks relating to the Proposals

Risk factors relating to the Proposals are set out on pages 30-31 of Part II (“Risk Factors”) of the Rights Issue Prospectus, and are incorporated by reference into this document.

4 Risks relating to the ECNs

Capitalised terms used but not otherwise defined in this sub-section 4 (“Risks relating to the ECNs”) shall have the meanings given to them in Part A of Appendix 2 (“Terms and Conditions of the ECNs”).

4.1 ECNs may not be a suitable investment for all investors.

Each potential investor in the ECNs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the ECNs, the merits and risks of investing in the ECNs and the information contained or incorporated by reference in this document or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the ECNs and the impact such investment will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the ECNs and be familiar with the behaviour of financial markets in which they participate; and
- (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

4.2 ECNs are mandatorily convertible into Ordinary Shares in certain prescribed circumstances.

If at any time (as disclosed in the latest published annual or semi-annual consolidated financial statements of Lloyds Banking Group or as otherwise publicly disclosed by Lloyds Banking Group at any time) Lloyds Banking Group’s Consolidated Core Tier 1 ratio is less than 5 per cent., the ECNs will mandatorily convert at the prevailing Conversion Price into Ordinary Shares. As a result, investors in the ECNs will become Shareholders in Lloyds Banking Group when its published Consolidated Core Tier 1 Ratio (as so disclosed) breaches this level. The deterioration in such capital ratio may be accompanied by a deterioration in the trading price of the Ordinary Shares, such that investors would receive Ordinary Shares at a time when both the capital ratios and the share price of Lloyds Banking Group are diminished. The ECNs are not convertible into Ordinary Shares at the option of the ECN Securityholders at any time. Because of the nature of the Conversion Trigger, it will be very difficult to predict with any certainty when or if Conversion will occur. Accordingly, trading behaviour in respect of the ECNs is not necessarily expected to follow trading behaviour associated with other types of convertible or exchangeable securities.

If in the future Lloyds Banking Group were to be the subject of a takeover, depending on the nature of the acquirer and whether or not certain conditions are satisfied, the conversion feature on the ECNs may be disapplied permanently or, alternatively, any conversion following such takeover may be into ordinary shares of the acquirer, all as more fully described in Part A of Appendix 6 (“Terms and Conditions of the ECNs”).

4.3 Risks attached to the Conversion.

If Conversion of the ECNs is triggered at a time when the prevailing price of the Ordinary Shares is below the relevant Conversion Price, an ECN Securityholder will be obliged to accept delivery of the Ordinary Shares at that Conversion Price, which might be substantially higher than the prevailing price of the Ordinary Shares and a Holder would thereby receive Ordinary Shares with a market value substantially less than the principal amount of that Holder's ECNs. The further the Ordinary Share price falls below the relevant Conversion Price, the greater the risk of a material decline in the market price of the ECNs.

4.4 ECN Securityholders will bear the risk of fluctuation in the price of the Ordinary Shares and/or Lloyds Banking Group's Consolidated Core Tier 1 Ratio.

The market price of the ECNs is expected to be affected by fluctuations in the market price of the Ordinary Shares, in particular at any time there is a significant deterioration in Lloyds Banking Group's Consolidated Core Tier 1 Ratio, and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Group, the results of operations and political, economic, financial and other factors. Any decline in the price of the Ordinary Shares or any indication that Lloyds Banking Group's Consolidated Core Tier 1 Ratio is trending towards the Conversion Trigger may have an adverse effect on the market price of the ECNs. The level of Lloyds Banking Group's Consolidated Core Tier 1 Ratio may significantly affect the trading price of the ECNs.

4.5 The remedies available to an ECN Securityholder upon enforcement of Lloyds Banking Group's obligations under the Deed Poll are limited, and the Trustee will have no power of enforcement or otherwise under or in respect of the Deed Poll

An ECN Securityholder may at its discretion and without notice institute such proceedings against Lloyds Banking Group as it may think fit to enforce any term or condition binding on Lloyds Banking Group under the Deed Poll, but may not take any proceedings to enforce any obligation of Lloyds Banking Group under or arising from the Deed Poll for the payment of any sum (including any damages awarded for breach of any obligations) other than instituting proceedings for the winding-up of Lloyds Banking Group, proving in any winding-up of Lloyds Banking Group and/or claiming in any liquidation of Lloyds Banking Group. The Trustee will have no power of enforcement or otherwise under or in respect of the Deed Poll on behalf of holders of the ECNs.

4.6 Restricted remedies for non-payment.

In accordance with the FSA's requirements for tier 2 capital, the sole remedy against the relevant ECN Issuer and/or the relevant Guarantor or Guarantors (as the case may be) available to the ECN Trustee to recover any amounts owing in respect of the principal of, or interest on, the ECNs will be to institute proceedings for, or prove in, the winding-up or claim in the liquidation of the relevant ECN Issuer and/or the relevant Guarantor or Guarantors (as the case may be) for such payment. See Part A of Appendix 2 hereto ("Terms and Conditions of the ECNs – Events of Default").

4.7 Ordinary Shares to be delivered upon Conversion of the ECNs in uncertificated form will be delivered through CREST and will not be available for issue or delivery to, or to a nominee for, Euroclear or Clearstream, Luxembourg

The ECNs will be delivered and traded in Euroclear and/or Clearstream, Luxembourg. Ordinary Shares to be delivered upon Conversion of the ECNs will be delivered in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered in certificated form.

Therefore, in the event of Conversion of the ECNs into Ordinary Shares to be delivered in uncertificated form, ECN Securityholders will need to have access to CREST in order to accept their entitlement to Ordinary Shares.

The Ordinary Shares to be issued on Conversion of the ECNs will not be available for issue or delivery (i) to, or to a nominee for, Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme, or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the “abolition day” as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom or (iii) to the CREST account of such person described in (i) or (ii).

4.8 ECN Securityholders must deliver a Conversion Notice within the relevant timeframe following a Conversion Trigger to receive Ordinary Shares

In order to obtain delivery of the relevant Ordinary Shares on a Conversion of the ECNs, the relevant ECN Securityholder must (a) if the ECNs held by it are in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver a duly completed Conversion Notice, together with the relevant ECNs or Certificates representing the same (in the case of Registered ECNs) to the specified office of any ECN Paying and Conversion Agent at least five business days in the relevant place of delivery prior to the relevant Conversion Date or (b) if the ECNs held by it are represented by a Global Security or are in definitive form and held through Euroclear or Clearstream, Luxembourg, give a notice to the ECN Principal Paying and Conversion Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg at least five business days in the relevant place of delivery prior to the relevant Conversion Date (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the ECN Principal Paying and Conversion Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the ECN Securityholder; (2) the principal amount of ECNs held by it and the subject of the Conversion; (3) the CREST account details or, if on Conversion the Ordinary Shares are not a participating security in CREST, the address to which the Ordinary Shares should be delivered to; and (4) such other details as Euroclear or Clearstream, Luxembourg may require. If the Conversion Notice and relevant ECNs or the Certificates representing the same, are not delivered to the specified office of an ECN Paying and Conversion Agent on or before such date, then on the settlement date the relevant Ordinary Shares will be issued or delivered to a person selected by Lloyds Banking Group and will be sold as soon as reasonably practicable by or on behalf of such person subject to any necessary consents being obtained and to the deduction by or on behalf of such person of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of such person. The net proceeds of the sale of such Ordinary Shares shall as soon as reasonably practicable be distributed rateably to the relevant ECN Securityholders in accordance with the ECN Conditions or in such other manner and at such time as Lloyds Banking Group shall determine and notify to the ECN Securityholders.

4.9 ECN Securityholders have limited anti-dilution protection.

The Conversion Price at which the ECNs may be converted into Ordinary Shares will be adjusted in the event that there is a consolidation, reclassification or subdivision of the Ordinary Shares, capitalisation of profits, capital distributions or cash dividends, rights issues or grant of other subscription rights or other adjustment which affects the Ordinary Shares, but only in the situations and only to the extent provided in Part A of Appendix 2 (“Terms and Conditions of the ECNs – Conversion”) of this Exchange Offer Memorandum. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the ECNs.

4.10 The obligations of the relevant ECN Issuer and the relevant Guarantor or Guarantors under the ECNs are subordinated.

The rights and claims of the ECN Securityholders under the Guarantee or Guarantees will be subordinated to the claims of all Issuer Senior Creditors and all Guarantor Senior Creditors, as the case may be. See Part A of Appendix 2 (“Terms and Conditions of the ECNs – Status

and Subordination of the ECNs and Guarantee: Status and Subordination of the Guarantee”). There is a material risk that a holder of the ECNs will lose all or some of its investment should the relevant ECN Issuer or the relevant Guarantor or Guarantors become insolvent.

In particular ECN Securityholders should be aware that the ECNs will comprise Lower Tier 2 regulatory capital of the Group. However, in the event that the ECNs are converted into Ordinary Shares, ECN Securityholders will be effectively further subordinated due to the conversion from a debt instrument to ordinary shares, and there is an enhanced risk that ECN Securityholders will lose all or some of their investment should Lloyds Banking Group (or, if applicable, the relevant Acquiror) become insolvent.

4.11 Redemption risk.

The ECNs may, subject as provided in the ECN Conditions and subject to the prior consent of the FSA, be redeemed prior to their stated Maturity Date in the circumstances described below.

In addition, upon the occurrence of a Tax Event or a Capital Disqualification Event (each as defined and more fully described in Part A of Appendix 2 (“Terms and Conditions of the ECNs – Redemption and Purchase”) the ECNs may, subject to the Conditions, be redeemed by the relevant ECN Issuer at any time (in the case of a Fixed Rate ECN) or on any Interest Payment Date (in the case of a Floating Rate ECN) prior to the Maturity Date specified in the relevant Pricing Schedule, in each case at their principal amount (or, in relation to a Capital Disqualification Event only, at such other amount as may be specified in the relevant Pricing Schedule) together with accrued but unpaid interest.

4.12 ECN Securityholders have no right to call for redemption

The relevant ECN Issuer is under no obligation to redeem the ECNs at any time prior to the stated Maturity Date and the ECN Securityholders shall have no right to call for their redemption at any time.

4.13 There is no limitation on issuing securities.

There is no restriction on the amount of securities or indebtedness which the ECN Issuers or the Guarantors may issue or incur which rank senior to or *pari passu* with the ECNs. The issue of any such securities or indebtedness may reduce the amount recoverable by ECN Securityholders on a winding-up of the relevant ECN Issuer or the relevant Guarantor or Guarantors, or the appointment of an administrator of the relevant ECN Issuer or relevant Guarantor or Guarantors where the administrator has declared, or given notice that it intends to declare and distribute, a dividend. In addition, the ECNs do not contain any restriction on Lloyds Banking Group issuing equity securities that may have preferential rights to the Ordinary Shares and any such issuance would not result in an adjustment to the Conversion Price.

4.14 The Company may issue further ECNs.

As part of the Resolutions, the Company is seeking approval for a larger nominal amount of shares in relation to the issuance of ECNs than the Maximum ECN New Issue Amount. Therefore, the Company has the flexibility to issue further ECNs in the future, the terms of which may differ from the ECNs issued pursuant to the Exchange Offer. Further ECNs may also be issued in relation to the underwriting agreement with the Dealer Managers.

4.15 There is no active trading market for the ECNs and one may not develop.

The ECNs are new securities which may not be widely distributed and for which there is currently no active trading market. If the ECNs are traded after their initial issuance, they may trade at a discount to their issue price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Group’s results of operations, fluctuations in Lloyds Banking Group’s Consolidated Core Tier 1 Ratio and the market price of the Ordinary Shares. Although application has been made for the ECNs to be listed on the Official List of the London Stock Exchange and traded on the Regulated Market of that exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the ECNs.

4.16 The credit ratings may not reflect all risks of holding ECNs, and changes to the credit ratings could affect the value of the ECNs

Credit ratings may not reflect the potential impact of all risks relating to the value of the ECNs. Real or anticipated changes in the Core Tier 1 Ratio of Lloyds Banking Group and/or changes in the credit ratings of the relevant Issuer and/or relevant Guarantor of the ECNs will generally affect the market value of the ECNs. The ECNs guaranteed by Lloyds TSB Bank are expected to be rated BB by S&P, Ba2 by Moody's and BB by Fitch, and the ECNs guaranteed by Lloyds Banking Group plc are expected to be rated BB- by S&P, Ba3 by Moody's and BB by Fitch. There can be no assurance that the methodology of the ratings agencies will not change or that such ratings will not be suspended, reduced or withdrawn at any time by the assigning rating agency. Further, such credit ratings may be revised downwards in the event of a deterioration in the Consolidated Core Tier 1 Capital Ratio of Lloyds Banking Group. A rating is not a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

4.17 Because the Global Certificates will be held by or on behalf of Euroclear or Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment, voting and communication with the ECN Issuers.

Each series of ECNs issued in registered form will be represented by a Global Certificate. Such Global Certificates will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the relevant Global Certificate, investors will not be entitled to receive ECNs in definitive form. The relevant ECN Issuer will also not issue ECNs which are cleared through DTC. Euroclear or Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the ECNs are represented by one or more Global Certificates, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

The relevant ECN Issuer will discharge its payment obligations under the ECNs by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear or Clearstream, Luxembourg to receive payments under the ECNs. The relevant ECN Issuer and the relevant Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

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

4.18 Modification and waivers.

The ECN Conditions contain provisions for calling meetings of ECN Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all ECN Securityholders including ECN Securityholders who did not attend and vote at the relevant meeting and ECN Securityholders who voted in a manner contrary to the majority. The ECN Conditions also provide that the ECN Trustee may, without the consent of the ECN Securityholders, agree to any modification of, or waiver or authorisation of any breach or proposed breach of, the ECN Conditions.

4.19 Change of law.

The ECN Conditions are based on English law in effect as at the date of issue of the ECNs. No assurance can be given as to the impact of any possible judicial decision or change in English law or administrative practice after the date of issue of the ECNs.

4.20 The IRS could seek to characterise the ECNs other than as equity in the Company for U.S. federal income tax purposes, which could have adverse tax consequences to U.S. investors.

Although a strong likelihood exists that the ECNs will be treated as equity of the Company for U.S. federal income tax purposes, alternative characterisations are possible and some of those characterisations could have adverse US federal income tax consequences to U.S. investors. For example, if the ECNs were treated as equity of the relevant issuer and the relevant issuer were a passive foreign investment company, a U.S. investor would be subject to material adverse U.S. tax consequences, such as the requirement to pay a special U.S. addition to tax on certain distributions on and gains on sale of the ECNs. Alternatively, the IRS could seek to characterize the ECNs as debt of the Company or the relevant issuer. See “Taxation Considerations – Certain U.S. Federal Income Tax Considerations”

4.21 Deeply Discounted Securities.

The ECNs are being issued pursuant to the Exchange Offer. In some cases the consideration received by an ECN Issuer for the issue of ECNs of a particular series may be less than the amount due on their redemption. That could cause such ECNs (“Affected ECNs”) to be “deeply discounted securities” within the meaning of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. Any profit made by a person within the charge to income tax (including any individual or trustee resident for tax purposes in the United Kingdom) on a disposal of an Affected ECN (including transfer, redemption or conversion) could be taxed as income. For Holders who acquire their ECNs pursuant to the Exchange Offer, a taxable profit could arise where the amount or value received by the Holder on a disposal or redemption of an ECN exceeds the price paid to acquire the ECN, that is the market value (taken at the time of the Exchange) of the relevant Existing Security exchanged by that Holder for that ECN. Because of the comparison with the price paid to acquire the ECNs it is therefore possible for a charge to arise even if the proceeds of disposal (including redemption) are equal to or lower than the par value of the ECN issued.

4.22 EU Savings Directive.

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Economic Area, including Belgium from 1 January 2010, is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission’s advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of or in respect of tax were to be withheld from that payment, neither the relevant ECN Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any ECN as a result of the imposition of such withholding tax. However, each ECN Issuer is required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

4.23 Minimum Specified Denominations

In relation to any ECNs which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the ECNs may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination. In such case, an ECN Securityholder who, as a result of such trading amounts, holds a principal amount of less than the minimum Specified Denomination (as defined in Part A of Appendix 2 (“Terms and Conditions of the ECNs”)) will not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

PART III

SUMMARY OFFERING TABLE

This summary offering table identifies each series of Existing Securities which is subject to the Exchange Offer. These are the only series of Existing Securities that are subject to the Exchange Offer. Holders may Offer to Exchange their Existing Securities for the relevant series of ECNs in accordance with the Exchange Ratios and the Exchange Priority set forth in Appendix 1 and as set out below. The relevant ECN Issuer will also pay, or procure payment of, in cash, the Accrued Interest Payment in respect of each series or class of Existing Securities, relating to the period from and including the most recent interest payment date, to but excluding, the Settlement Date. A full description, and the terms and conditions, of the Exchange Offer are set out in Part VI (“The Exchange Offer”) of this Exchange Offer Memorandum.

ISIN of Existing Securities	Issuer/Title of Existing Securities ⁽¹⁾	Principal Amount Outstanding	ECNs		ECN Issuer	ECN ISIN	Series Number of ECNs ⁽⁴⁾
			Exchange Ratio (for validly accepted Offers to Exchange occurring prior to the Early Tender Deadline) ⁽²⁾	Exchange Ratio (for validly accepted Offers to Exchange occurring after the Early Tender Deadline but prior to the Expiration Deadline) ⁽³⁾			
US4041A2AG96 (144A)	HBOS plc U.S.\$1,000,000,000	U.S.\$ 1,000,000,000	1:1	9:10	LBG Capital No.1	XS0459093794 (QIB only)	002
US4041A3AF96 (Reg S)	5.375% Undated Fixed to Floating Rate Subordinated Notes					XS0459093521 (Reg S)	
USG43648AA57 (Reg S)	HBOS Capital Funding	U.S.\$ 750,000,000	1:1	9:10	LBG Capital No.1	XS0459094255 (QIB only)	003
US40411CAA09 (144A)	No.2 L.P. U.S.\$750,000,000					XS0459093950 (Reg S)	
	6.071% Non-voting Non-cumulative Perpetual Preferred Securities						
GB0000765403	Bank of Scotland plc U.S.\$250,000,000	U.S.\$ 237,200,000	1:1	9:10	LBG Capital No.2	XS0459093448	001
	Undated Floating Rate Primary Capital Notes						
GB0005205751	Lloyds TSB Bank plc U.S.\$500,000,000	U.S.\$ 423,810,000	1:1	9:10	LBG Capital No.2	XS0459093448	001
	Primary Capital Undated Floating Rate Notes (Series 2)						
GB0005224307	Lloyds TSB Bank plc U.S.\$750,000,000	U.S.\$ 659,850,000	1:1	9:10	LBG Capital No.2	XS0459093448	001
	Primary Capital Undated Floating Rate Notes (Series 1)						
GB0005232391	Lloyds TSB Bank plc U.S.\$600,000,000	U.S.\$ 526,150,000	1:1	9:10	LBG Capital No.2	XS0459093448	001
	Primary Capital Undated Floating Rate Notes						

Notes:

- (1) Existing Securities are listed in order of Exchange Priority – See Appendix 1.
- (2) Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange.
- (3) Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange.
- (4) “Series Number” refers to the series number of the relevant series of ECNs into which Holders are permitted to exchange each series or class of Existing Securities. Further details of each series of ECNs are set out in the Pricing Schedule in Part B of Appendix 2 hereto (“Pricing Schedules relating to the ECNs”).

Due to the number and type of Existing Securities which are subject to the Exchange Offer, and the differences between such Existing Securities and the ECNs, this Exchange Offer Memorandum does not set out a summary of the differences between them. Holders who are in any doubt as to the terms of their Existing Securities and the differences to the terms of the ECNs are recommended to seek appropriate financial, tax, accounting and legal advice from their professional advisers prior to participating in the Exchange Offer.

PART IV

OTHER IMPORTANT INFORMATION

Loss Forecast

Save as otherwise stated herein at paragraph 12 of Part V (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”), Part VIII (“Information on the Group”) and Part XVIII (“Loss Forecast for the Year Ending 31 December 2009”) of this Exchange Offer Memorandum (as incorporated by reference herein), no statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for Lloyds Banking Group, unless otherwise stated.

Regulation M

Lloyds Banking Group, through certain identifiable business groups and certain of its affiliates, has engaged and intends to continue to engage in various dealing and brokerage activities involving Ordinary Shares. Certain insurance companies, trustees and personal estate representatives, collateral taking entities, employee share plan trustees and brokerage groups that are affiliates of Lloyds Banking Group have purchased and sold, and intend to continue to purchase and sell, Ordinary Shares and derivatives as part of their ordinary investing and business activities. These activities occurred and are expected to continue to occur in the United Kingdom and elsewhere outside of the United States. Lloyds Banking Group, through certain derivatives business groups, has engaged, and intends to continue to engage, in the issuance, purchase and sale of derivatives (such as options, warrants and other instruments) relating to Ordinary Shares for Lloyds Banking Group’s accounts and the accounts of Lloyds Banking Group’s customers, as well as in purchases and sales of Ordinary Shares for the purpose of hedging the positions established in connection with the derivatives activities relating to Ordinary Shares entered into by Lloyds Banking Group and its customers. These activities occurred and are expected to continue to occur solely outside the United States and predominantly in the United Kingdom. Certain asset management companies (including Scottish Widows Investment Partnership Limited and Lloyds TSB Offshore Private Client Limited, which conduct certain asset management activities in the United States) and banking groups that are affiliates of Lloyds Banking Group have purchased and sold, and intend to continue to purchase and sell, Ordinary Shares and derivatives as part of their ordinary investing and business activities. These activities occurred and are expected to continue to occur predominantly in the United Kingdom and outside of the United States. All of these activities could have the effect of preventing or retarding a decline in the market price of the Ordinary Shares. Lloyds Banking Group has sought and received from the SEC certain exemptive relief from Regulation M in order to permit its identifiable business groups and affiliates to engage in the foregoing activities during the Regulation M restricted period.

Rounding

Certain figures included in this document and in the information incorporated by reference into this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts are due to such rounding.

Percentages have been calculated and disclosed to the extent they provide meaningful information for the convenience of the reader.

Websites

Neither the content of the Group’s website, including HBOS’s website, nor any other website nor the content of any website accessible from hyperlinks on the Group’s website, including HBOS’s website, nor any other website is incorporated into, or forms part of, this document.

Time

All references in this document to times are to New York City time unless otherwise stated.

Definitions and Interpretation

Unless otherwise stated, capitalised terms used in this document have the meanings ascribed to them in Part XXVIII (“Definitions”) of this document.

Unless otherwise specified or the context otherwise requires, references to “£”, “pounds”, “sterling” and “pence” are to pounds sterling, references to “€” or “euro” refer to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam, references to “A\$” are to Australian dollars, references to “S\$” are to Singapore dollars, and references to “U.S.\$”, “U.S. Dollar”, “Dollar” or “dollar” are to United States dollars.

Forward-Looking Statements

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

Examples of such forward-looking statements include, but are not limited to, projections or expectations of profit attributable to shareholders, provisions, economic profit, dividends, capital structure or any other financial items or ratios; statements of plans, objectives or goals of the Group or its management; statements about the future trends in interest rates, foreign exchange rates, stock market levels and demographic trends and any impact on the Group; statements concerning any future UK or other economic environment or performance including in particular any such statements included in this document or its annual report; statements about strategic goals, competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group or on the Group’s behalf include, but are not limited to, general economic conditions in the UK and internationally; inflation, deflation, interest rates, policies of the Bank of England and other G-8 central banks, exchange rate, market and monetary fluctuations; changing demographic developments including mortality and changing customer behaviour including consumer spending, saving and borrowing habits, borrower credit quality, technological changes, natural and other disasters, adverse weather and similar contingencies outside the Group’s control; inadequate or failed internal or external processes, people and systems; terrorist acts, other acts of war, geopolitical, pandemic or other such events; changes in laws, regulations, taxation, government policies or accounting standards or practices, exposure to regulatory scrutiny, legal proceedings or complaints, changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the ability to secure new customers and develop more business from existing customers; the ability to achieve value-creating mergers and/or acquisitions at the appropriate time and prices and the success of the Group in managing the risks of the foregoing; the ability to derive cost savings and other benefits as well as to mitigate exposures from the acquisition and integration of HBOS.

The Group may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the SEC, the Company’s annual reviews, half yearly announcements, proxy statements, offering circulars, prospectuses, press releases and other written materials and in oral statements made by the directors, officers or employees of the Group third parties, including financial analysts.

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 forward-looking statements in this document are made as of the date hereof, and 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.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the ECN Issuers, Lloyds TSB Bank or Lloyds Banking Group. Neither the delivery of this document nor any offer to exchange made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Lloyds TSB Bank, Lloyds Banking Group or the Group since the date of this document or that the information in this document is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Group and the terms of the Exchange Offer, including Part II ("Risk Factors") and Part VI ("The Exchange Offer – Offer Restrictions") of this document.

The Dealer Managers are entitled to hold positions in the Existing Securities and the ECNs. The Dealer Managers are entitled to continue to own or dispose of, in any manner they may elect, any Existing Securities they may beneficially own as at the date of this Exchange Offer Memorandum or, from such date, to acquire further Existing Securities, subject to applicable law. The Dealer Managers have no obligation to the ECN Issuers or Lloyds Banking Group to Offer to Exchange or refrain from Offering to Exchange Existing Securities beneficially owned by them in connection with the Exchange Offer.

PART V

LETTER FROM SIR WINFRIED BISCHOFF, CHAIRMAN OF LLOYDS BANKING GROUP PLC

Directors:

Sir Winfried Bischoff (*Chairman*)
Lord Leitch (*Deputy Chairman*)
J Eric Daniels (*Group Chief Executive*)
Archie G Kane
G Truett Tate
Tim J W Tookey
Helen A Weir CBE
Dr. Wolfgang C G Berndt
Sir Julian Horn-Smith
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3 November 2009

Dear Holders of Existing Securities,

PROPOSED ALTERNATIVE TO THE GOVERNMENT ASSET PROTECTION SCHEME COMPRISING A LIABILITY MANAGEMENT EXERCISE BY WAY OF EXCHANGE OFFERS AND A RIGHTS ISSUE TOGETHER WITH THE HMT TRANSACTIONS AND SHARE SUBDIVISION

1 Introduction

Today, Lloyds Banking Group plc has announced proposals intended to meet its current and long-term capital requirements. If our shareholders approve these proposals, it will mean that the Group will not participate in the Government Asset Protection Scheme ("GAPS").

The Group has also released a trading update today. This reinforces the Group's views expressed in its Interim Results News Release in August that the economic environment in the UK has begun to stabilise. Group margins are also beginning to stabilise, cost reductions for the Group remain on track and overall Group impairments have peaked. Based on the Group's trading performance during the year to date, the Board now has increased confidence in the Group's ability to deliver a strongly improving business performance in 2010 and 2011. Further details on the Group's trading update can be found in paragraph 12 of this letter.

Under the Proposals, which are fully underwritten pursuant to the Underwriting Agreements and the HMT Undertaking to Subscribe, the Group will, subject to Ordinary Shareholder approval: (i) generate at least £7.5 billion in core tier 1 and/or nominal value of contingent core tier 1 capital through the Exchange Offers and/or the related underwriting arrangements; and (ii) raise £13.5 billion (£13 billion net of expenses of the Proposals) by way of a Rights Issue. The Board believes that the Proposals provide a significantly more attractive alternative to participating in GAPS and offer superior economic value to shareholders.

HM Treasury, which holds a 43.4 per cent. holding in Lloyds Banking Group, has undertaken to the Company pursuant to the HMT Undertaking to Subscribe, to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) will vote in favour of the Resolutions which are being put before Ordinary Shareholders to implement the Proposals and on which it is entitled to vote. HM Treasury has also undertaken to participate in full in respect of its rights in the Rights Issue. The Board welcomes HM Treasury's support. In addition, all the Directors intend to participate in respect of their rights in the Rights Issue.

Alongside the Proposals, the Group has agreed, subject to shareholder approval (excluding HM Treasury), to pay to HM Treasury a fee of £2.5 billion for the benefit to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group (the "GAPS Payment") and the HMT Commitment Commission, being a commission of up to £143.7 million in consideration, *inter alia*, of HM Treasury's pre-launch commitment to participate in full in respect of its entitlements under the Rights Issue. Payment of a fee in relation to the benefit to the Group's trading operations as described above is also required by the European Commission as part of the expected state aid remedies. The Group has also agreed to reaffirm the lending commitments that it gave to HM Treasury in March 2009 and to maintain in the 12 months commencing 1 March 2010 similar overall levels of lending as in the 12 months commencing 1 March 2009.

Over the past few months, HM Treasury and the Group have been involved in detailed negotiations with the European Commission in relation to the terms of a restructuring plan which is required in the context of a review resulting from the state aid which has been received by the Group. The Group, together with HM Treasury, has now substantially finalised negotiations with the European Commission around the terms of the restructuring plan and the Group expects to receive a formal decision from the Commission on the state aid position and the restructuring plan by the end of 2009. The Group is confident that the final terms of the restructuring plan will not have a materially negative impact on the Group. However, the Company expects to be prevented from paying dividends on Ordinary Shares for so long as it is prohibited from making coupon payments on certain of its other securities (for a period which is expected to be between 31 January 2010 and 31 January 2012) as a result of the restrictions expected to be required by the European Commission as part of the restructuring plan. Further details on the current state aid position are set out in paragraph 5 of this letter. See also Risk Factor 2.1.

2 The Proposals

The Proposals comprise:

- (i) two separate Exchange Offers, the Non-U.S. Exchange Offer and the Exchange Offer. Under the Exchange Offers, eligible holders of existing securities will be invited to offer to exchange such securities for either: (a) new lower tier 2 capital qualifying bonds which will be guaranteed by either Lloyds Banking Group or Lloyds Banking Group and Lloyds TSB Bank ("Enhanced Capital Notes" or "ECNs") and which will convert into Ordinary Shares if the Group's published consolidated core tier 1 capital ratio falls to less than 5 per cent.; or (b) in the Non-US Exchange Offer only, an exchange consideration amount which shall be settled in new Ordinary Shares or, at the election of the Company, cash or, in certain limited circumstances, ECNs. The Exchange Offers and/or the underwriting arrangements related thereto will create at least £7.5 billion in core tier 1 and/or nominal value of contingent core tier 1 capital. While the Exchange Offers are underwritten up to £7.5 billion, to the extent that the Exchange Offers are successful and that a market develops in ECNs, the Directors believe it is in the best interests of the Company to have the flexibility to issue further ECNs, to satisfy demand; and
- (ii) an equity raising of £13.5 billion (£13 billion net of expenses of the Proposals) by way of a Rights Issue. The Rights Issue is fully underwritten pursuant to the Rights Issue Underwriting Agreement and the HMT Undertaking to Subscribe. The Issue Price at which Qualifying Shareholders will be invited to subscribe for New Shares will be determined in advance of the General Meeting and will be at a discount to the Theoretical Ex Rights Price ("TERP"), taking account of market conditions and other relevant factors.

The Proposals are fully underwritten pursuant to the Underwriting Agreements and the HMT Undertaking to Subscribe, as discussed further in paragraph 8 of this letter and sections 8.5 and 8.6 of Part XX ("Additional Information") of the Rights Issue Prospectus (as incorporated by reference herein). Each element of the Proposals is conditional on the approval by the Ordinary Shareholders of the Proposals Resolutions (which include the HMT Transactions and the Share Subdivision).

Only the Exchange Offer is being made by means of this document. Documentation in relation to the other components of the Proposals will be sent separately to eligible investors or holders. The Non-US Exchange Offer is being made in certain countries outside the United States only and is not being made to U.S. persons.

3 Rationale and key benefits of the Proposals

Rationale

As discussed further in paragraph 7 of this letter, the Board believes that the economic environment in the UK has begun to stabilise and that the UK economy is now expected to return to growth in 2010. This represents a significantly more positive environment for the Group than the conditions prevailing when the FSA Stress Test was carried out in March 2009, the time at which the Group announced its intended participation in GAPS. As previously announced, the Board continues to expect that the Group's overall impairments in the second half of the year will be significantly lower than those incurred in the first half, with progressive reductions expected thereafter.

Claims under GAPS could only be made after the First Loss (as defined in paragraph 6 of this letter) had been exceeded. However, based on the Board's view of the economic outlook for the UK, the Group does not expect that its overall impairments will be high enough to justify entering into GAPS. On this basis the Group would not expect to make any claim were it to participate in GAPS, but would nevertheless still incur significant costs. Even if the UK economy were to deteriorate to the level assumed in the FSA Stress Test, which the Board considers to be unlikely, the Board believes that the net amounts that the Group would have received under GAPS would have been less than the £15.6 billion participation fee which it would have been required to pay to participate in GAPS on the terms announced in March.

Accordingly, the Board is of the view that an alternative approach to meeting its current and long-term capital commitments, in the form of the Proposals, is in the best interests of the Group and its shareholders. The Proposals have been structured in consultation with the FSA. The Board is therefore confident that the Proposals, together with other management actions which the Board considers to be readily actionable, will generate sufficient capital to ensure that the Group no longer requires the asset protection which it would have obtained through participation in GAPS, even if the severe scenario envisaged by the FSA Stress Test were to occur. The Board believes that the Proposals represent a significant step in meeting its long-term objective: that the Group operates as a wholly privately-owned, self-supporting commercial enterprise.

The Board is pleased that it is now able to offer a market-based solution to meet its capital requirements. Such a solution was not available to the Group at the time of the announcement of the Group's intended participation in GAPS in March 2009.

Key benefits

Were it to participate in GAPS, the Group would benefit from certain loss and regulatory capital relief (as set out in more detail in paragraph 6 of this letter). However, the Board believes that the Proposals offer substantial benefits to shareholders, both on their own merits and as a significantly more attractive option in comparison to GAPS, for the reasons described in more detail below. The Board believes that the Proposals, after taking into account the GAPS Payment, will enhance both earnings per share and returns on equity for the Company relative to GAPS, even if the UK economy deteriorates to the level implied by the FSA Stress Test, which the Board considers to be unlikely.

Substantial increase in non-amortising core tier 1 equity capital: The Rights Issue will raise a total of £13.5 billion of immediately available and non-amortising core tier 1 capital, before expenses of the Proposals. Had the Rights Issue been completed as at 30 June 2009, the Group would have had a pro forma core tier 1 capital ratio of approximately 8.6 per cent, after taking into account expenses of the Proposals and the GAPS Payment. The Board considers that this implied level of core tier 1 capital represents a strong capital foundation to support the future stability and success of the Group.

Moreover, the core tier 1 capital raised by the Rights Issue will be available to absorb potential losses across all of the Group's assets, as opposed to GAPS which would only protect against losses on those particular assets covered by the scheme. The core tier 1 capital which would be created on conversion of the ECNs, (if and when they were to convert) would also be available to absorb potential losses across all the Group's assets.

By contrast, based on the terms announced in March 2009, GAPS would have created an initial £15.6 billion of core tier 1 capital through the subscription by HM Treasury, using the GAPS

participation fee, for B Shares. However, the core tier 1 capital benefit of £15.6 billion from the issue of B Shares would have been largely offset over the subsequent seven-year period by the GAPS participation fee which would have been amortised through the Group's income statement. After taking tax into consideration, this would have reduced core tier 1 capital by £11.2 billion. Furthermore, although GAPS would offer an additional core tier 1 capital benefit by providing capital relief on the risk-weighted assets that would initially have been included in the scheme, this benefit would have reduced significantly as the assets within GAPS matured or otherwise ceased to be covered by GAPS in the short-to-medium term.

Improved capital efficiency and lower shareholder dilution: The ECNs to be issued pursuant to the Exchange Offers have been designed to provide capital to the Group without being dilutive to shareholders at the time of their issue. The ECNs will qualify at the time of their issue as lower tier 2 capital and automatically convert into Ordinary Shares if the Group's published consolidated core tier 1 capital ratio falls to less than 5 per cent., thereby increasing the Group's core tier 1 capital at such time. In the event of a conversion pursuant to this feature, up to £7.5 billion of core tier 1 capital would be generated.¹ This provides protection against unexpected deterioration in the UK economy and the effect that such deterioration would have on the Group's capital ratios. Conversion of the ECNs, and the resulting dilution of Ordinary Shareholders, would only occur if the Group's results (in particular impairments) were significantly worse than the Board currently expects.

By contrast, under GAPS, the B Shares to be issued to HM Treasury, at a cost to HM Treasury of £15.6 billion, would have been available for conversion at HM Treasury's option into 13.6 billion Ordinary Shares, and would have converted automatically if the volume-weighted average trading price of the Ordinary Shares equalled or exceeded 150 pence per Ordinary Share for 20 complete trading days in any 30 trading-day period. Upon such conversion, HM Treasury's ownership of the Company would have increased to approximately 62.3 per cent. from its current level of 43.4 per cent. This substantial dilution to Ordinary Shareholders (other than HM Treasury) would, therefore, have occurred in the event that the Company's share price increased to such levels or if HM Treasury exercised its option to convert to Ordinary Shares.

Cost effective: By implementing the Proposals, although the Group will be required to make the GAPS Payment, the Group will not have to pay the £15.6 billion GAPS participation fee to HM Treasury. In addition, the Company will not issue any B Shares and, accordingly, will not have to pay HM Treasury the proposed annual dividend on the B Shares of at least £1.1 billion, subject to the Company having sufficient distributable reserves.

Improved capital structure: The Proposals are designed to increase both the Group's current and contingent core tier 1 capital. The Exchange Offers provide Holders of each series of Existing Securities and those that are the subject of the Non-U.S. Exchange Offer with the opportunity to Offer to Exchange their existing holdings for either (a) a series of ECNs or (b) in the Non-US Exchange Offer only, an exchange consideration amount which shall be settled in Ordinary Shares (or, at the election of the Group, cash) or, in limited circumstances, ECNs. The ECNs represent a new form of capital which will allow greater efficiency in the Group's capital structure. Each series of ECNs will have terms eligible to qualify as lower tier 2 capital for the Group upon their issue and will automatically convert into Ordinary Shares if the Group's published consolidated core tier 1 ratio falls below 5 per cent. For information on the Group's target consolidated core tier 1 capital ratio, see paragraph 13 below. The conversion price for such conversion will be based on the greater of (i) the volume-weighted average trading price of the Ordinary Shares for the five day period ending on 17 November 2009 and (ii) 90 per cent. of the closing price of an Ordinary Share on the London Stock Exchange on 17 November 2009, as further adjusted for the impact of the Rights Issue. The FSA has determined that the ECNs will be eligible to be classified as lower tier 2 capital, in respect of the FSA's current pillar 1 and 2 regime. The ECNs will also count as core tier 1 for the purposes of the FSA's stress test framework when the stressed projection shows 5 per cent. core tier 1, which is the trigger for conversion into Ordinary Shares. Therefore, while the ECNs will not be treated as core tier 1 prior to their conversion into Ordinary Shares, they can count as core tier 1 in the context of the FSA's stress test framework and will count as core tier 1 for pillar 1 and pillar 2 purposes following conversion.

¹ This assumes that £7.5 billion of ECNs are issued pursuant to the Exchange Offers.

ECNs address coupon and dividend suspensions and capital calls: The rate of interest on each series of ECNs will be set at a premium above the interest rate or dividend rate (as the case may be) of the relevant Existing Securities for which the ECNs are exchanged. Holders of the Existing Securities may be adversely affected by the outcome of negotiations between the Company, HM Treasury and the European Commission. These negotiations have made clear that the European Commission intends to require restrictions on discretionary payments of coupons and dividends and blocks on the exercise of optional early redemption features (capital calls) on Existing Securities and certain other outstanding hybrid capital securities for a period of two years commencing 31 January 2010 (the "Affected Period"). Holders of those Existing Securities whose securities are accepted for exchange for ECNs will receive instruments which contain non-discretionary payment provisions and which, unlike the Existing Securities, have a fixed maturity date. Accordingly, the ECNs will not be affected by these restrictions. It is the current intention of the Company that any decision by it to exercise capital calls in any Existing Securities which remain outstanding following the Affected Period and which belong to a class or series of Applicable Securities, will be made on an economic basis. As used herein, "Applicable Securities" means Existing Securities belonging to a class or series (a) the holders of some of which had their Offers to Exchange accepted in the Exchange Offers in accordance with the relevant Exchange Priority set out in Appendix 1 hereto or the corresponding priority for the Non-U.S. Exchange Offer or (b) which appears in the relevant Exchange Priority ahead of the lowest ranking class or series falling within (a) above.

Other advantages of the Exchange Offers to certain Holders: For Holders of Existing Securities which are issued by HBOS or BOS group companies, the Exchange Offers give them the opportunity to exchange for securities issued or guaranteed by the Company or the Company and Lloyds TSB Bank plc. Holders of Existing Securities issued or guaranteed by HBOS or BOS currently have access to the cashflows of HBOS and BOS, respectively and payments on certain such securities are conditional upon the solvency and capital position of HBOS and BOS, respectively. As part of the integration of HBOS into the Group, the business and operations of the enlarged Group may be reconfigured by Lloyds Banking Group, including by means of the transfer of certain businesses and operations out of the HBOS Group or as part of a corporate restructuring.

Improved EU state aid position relative to GAPS: Based on discussions with HM Treasury and the European Commission, the Board believes that, should shareholders adopt the Proposals, the total amount of state aid received by the Group will be significantly lower than would have been expected to be the case had the Group participated in GAPS. The Board believes that this will significantly reduce the severity of the final terms of the restructuring plan required by the European Commission to limit distortions of competition resulting from the state aid received by the Group. An update on the Group's current state aid position is set out in paragraph 5 of this letter.

No additional administrative and operational burden: Participation in GAPS would have required the Group to create an additional administrative and reporting infrastructure that would have been costly, both from a financial perspective and in terms of management time. This would have inhibited the Group's operational and commercial efficiency and flexibility and absorbed substantial Group resources.

Further detailed information on the background to GAPS and the Proposals, including the reasons for the Board concluding that not participating in GAPS is preferable to renegotiating an amended scheme, is set out in the remaining paragraphs of this letter.

4 GAPS Withdrawal Deed; HMT Undertaking to Subscribe

GAPS Withdrawal Deed

Alongside the Proposals, the Company has entered into the GAPS Withdrawal Deed. This agreement sets out the various commitments and terms agreed with HM Treasury including with respect of the implementation of the expected state aid remedies (for further detail, see paragraph 5 of this letter).

The GAPS Withdrawal Deed provides that the Group shall, subject to state aid approval being obtained and to Resolution 4 being approved by the Ordinary Shareholders (excluding HM Treasury) at the General Meeting, make the GAPS Payment. This is a fee which the Group is proposing to pay to HM Treasury for the benefit to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group from the Group's

announcement of its intention to participate in GAPS in March 2009 until the announcement of the Proposals. Payment of a fee is also required by the European Commission as part of the expected state aid remedies.

Had the Group not reached agreement with HM Treasury on the amount of the GAPS Payment, the Group would not be able to pursue and implement the Proposals since payment of an agreed fee is a pre-requisite to finalising negotiations with the European Commission in respect of the remedies to address the state aid the Group has received, as described further in paragraph 5 of this letter.

The terms announced in March in connection with the Group's intended participation in GAPS did not address whether a fee should be paid by the Group if it did not ultimately accede to GAPS. Therefore, there is no contractual measure by which the Group can determine the level of such fee. Furthermore, whilst the European Commission has required that a commercially appropriate fee be paid, they have not prescribed the amount. The GAPS Payment has been negotiated between the Company and HM Treasury and is expected to be approved by the European Commission.

In order to determine what level of fee it would be appropriate to pay, the Group sought to quantify the benefit to the Group's trading operations arising as a result of HM Treasury making GAPS available to the Group.

The benefit to the Group has been calculated based on an estimate of the cost of capital for the Group equal to the amount of regulatory capital benefit which the Directors consider would have been received by or generated for the Group through GAPS for the period from the announcement of the Group's intention to participate in GAPS until today's date. Had GAPS not been available to the Group it would have needed to raise further capital. The calculation is difficult and, in some material respects, relies upon subjective judgements of some complexity and uncertainty. However, the amount of such regulatory capital benefit is based on: (i) the reduction of risk-weighted assets which would have arisen by virtue of GAPS; and (ii) the issuance of the B Shares. In order to determine the cost of capital for the Group, a range of outcomes can be derived from long-term historical data as well as relevant market transactions during the period. However, in this case, the Board took into account the fact that, in March 2009, the capital markets were under severe stress and the cost of capital for the Group would have been correspondingly materially higher than might have been available were only long-term historical data being used.

There are several other reasonable and supportable bases on which one can seek to quantify the benefit to the Group, and therefore the appropriate amount of the GAPS Payment. Before coming to an agreement with HM Treasury on the amount of the GAPS Payment based on the cost of capital for the Group, the Group carried out a number of analyses, in addition to the analysis referenced above, and determined a range of amounts which the Board believes reflect the amount of benefit received by the Group. The amount of the GAPS Payment negotiated and agreed with HM Treasury falls within the range of such appropriate amounts, albeit at the high end of that range. However, the Board believes that the GAPS Payment is a proportionate fee and reflects the amount of benefit received by the Group's trading operations.

The Board, having assessed carefully the amount of the GAPS Payment and the substantial benefits of the Proposals, believes that the Proposals, after taking into account the GAPS Payment, will enhance earnings per share and returns on equity for the Company relative to GAPS and, therefore, represent superior economic value to shareholders.

The GAPS Withdrawal Deed also includes undertakings by the Company in respect of certain other matters. In particular, with respect to remuneration, the Company has acknowledged its commitment to the principle that, from 2010, it should be at the leading edge of implementing the G20 principles, the FSA code on remuneration and remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always allow the Group to operate on a level playing field with its competitors. In addition, the Company has agreed with HM Treasury the specific deferral and clawback terms which will apply to any bonuses in respect of the 2009 performance year.

Furthermore, under the GAPS Withdrawal Deed, the Group has agreed to reaffirm the lending commitments which were originally given in the Lending Commitments Deed entered into by the Group on 6 March 2009 in connection with the Group's then proposed participation in GAPS. Under those lending commitments, the Company agreed to increase lending by approximately £14 billion in the 12 months commencing 1 March 2009 to support UK businesses (£11 billion) and

homeowners (£3 billion). The Group has agreed to maintain similar levels of lending in the 12 months commencing 1 March 2010, subject to adjustment of the funding commitments by agreement with HM Treasury, the Department for Business, Innovation and Skills and the Department for Communities and Local Government to reflect circumstances at the start of the 12 month period commencing 1 March 2010.

This additional lending in 2009 and 2010 is expressed to be subject to the Group's prevailing commercial terms and conditions (including pricing and risk assessment) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria (see the summary of the terms of the Lending Commitments Deed in section 8.2 of Part XX ("Additional Information") of the Rights Issue Prospectus as incorporated by reference herein). This lending commitment is part of the Group's ongoing support for UK businesses and homeowners.

The Group has additionally pledged its support for various Government schemes designed to provide additional funding for small businesses, and has also published charters for its small business customers making a range of pledges to help firms through the downturn.

HMT Undertaking to Subscribe

Under the HMT Undertaking to Subscribe, subject to certain terms and conditions, HM Treasury has irrevocably undertaken to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) (i) votes in favour of all of the Resolutions in accordance with the recommendation of the Board (except for the related party transaction resolution (Resolution 4) approving the HMT Transactions) and (ii) takes up its rights to subscribe for all of the New Shares to which it is entitled under the Rights Issue. The HMT Undertaking to Subscribe is conditional upon, among other things, the passing of Resolution 4 approving the HMT Transactions. Conditional upon (ii) above and the receipt by the Company of the aggregate subscription proceeds payable by HM Treasury, the Company has agreed to pay to HM Treasury (or to such other person as HM Treasury may direct) the HMT Commitment Commission. If HM Treasury had not committed to participate in full in respect of its entitlements under the Rights Issue, then the Group would have sought to ensure that HM Treasury's entitlement under the Rights Issue would have been covered by the underwriting commitments given by the Underwriters in which case an amount similar to that to be paid to HM Treasury would have been expected to have been paid instead to the Underwriters. Further details of the HMT Undertaking to Subscribe are set out in section 7.2 of Part XX ("Additional Information") of the Rights Issue Prospectus (as incorporated by reference herein).

Related Party Transaction

As HM Treasury holds more than 10 per cent. of the voting rights in the Company, HM Treasury is a "related party" for the purposes of the Listing Rules. Making the GAPS Payment, and payment of the HMT Commitment Commission (together, the "HMT Transactions") are each "related party transactions" (as defined in the Listing Rules). The HMT Transactions must, pursuant to the Listing Rules, each be approved by the Ordinary Shareholders other than the related party, that is HM Treasury. Resolution 4 seeks approval for the HM Transaction. However, HM Treasury shall not be entitled to vote on such Resolution. HM Treasury has further undertaken, as required by the Listing Rules, to take all reasonable steps to ensure that its associates, if any, will not vote on that Resolution.

5 State Aid

The Group has previously announced that, as a result of HM Treasury's investment in the Company in the context of the placing and open offer undertaken by the Company in November 2008 and the Group's participation in the Credit Guarantee Scheme, the Group has been required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. Any such plan is required to contain measures to limit any competition distortions resulting from the state aid received by the Group.

The European Commission has made it clear that it will require the Group to divest a standalone UK banking business as a condition of obtaining state aid approval and may also require behavioural restrictions as part of the restructuring plan. Accordingly, over the past few months, HM Treasury and the Group have been involved in detailed negotiations with the European Commission in relation to the terms of the restructuring plan (including the ultimate compensatory measures) in order to reach a mutually acceptable solution.

The ultimate decision regarding the approval of the UK Government's state measures, including the terms of the final restructuring plan, will be taken by the College of Commissioners (which the Board expects to occur before the end of 2009), and therefore at this stage there can be no certainty as to the outcome of the state aid proceedings and the content of the final restructuring plan. See Risk Factor 1.3 in the Rights Issue Prospectus (as incorporated by reference herein) for further discussion of the risks relating to the state aid proceedings. The Board expects, however, based on the outcome of its negotiations with HM Treasury and the European Commission, that the final restructuring plan will consist of the following principal elements:

- (i) The disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and approximately 19 per cent. of the Group's mortgage assets. The business would consist of:
 - the TSB brand;
 - the branches, savings accounts and branch based mortgages of Cheltenham & Gloucester plc;
 - the branches and Branch Based Customers of Lloyds TSB Scotland and a related banking license;
 - additional Lloyds TSB branches in England and Wales, with Branch Based Customers; and
 - Intelligent Finance,and would need to be disposed of within four years;
- (ii) an asset reduction programme to achieve a £181 billion reduction in a specified pool of assets by 31 December 2014; and
- (iii) behavioural commitments, including commitments:
 - not to make certain acquisitions for approximately three to four years; and
 - not to make discretionary payments of coupons or to exercise voluntary call options on hybrid capital securities from 31 January 2010 until 31 January 2012, which will prevent the Group from paying dividends on its ordinary shares for the same duration.

The assets and liabilities, and associated income and expenses, of the business to be divested cannot be determined with precision until nearer the date of sale. However, the Company estimates that, as at 31 December 2008 and after aggregating the elements relating to Lloyds TSB Group and HBOS, the business to be divested comprised approximately £70 billion of customer lending and £30 billion of customer deposits and, on this basis, approximately £18 billion of risk-weighted assets. For the year ended 31 December 2008, the Board estimates that the business to be divested generated income of approximately £1.4 billion and, after associated direct expenses of approximately £600 million and impairment charges of £300 million, contributed approximately £500 million of profit before tax to the Group.

The Board believes that the restructuring plan as described above is sufficient to obtain approval from the European Commission for the state aid the Group has received, including to the extent that HM Treasury's participation in the placing and compensatory open offer in June 2009 and in the Rights Issue might constitute state aid, as well as any commercial benefit received by the Group following the Group's announcement in March 2009 of its intention to participate in GAPS. The Board is confident that this restructuring plan will not have a materially negative impact on the Group.

The Company has agreed with HM Treasury in the GAPS Withdrawal Deed that the Company will comply with the terms of the European Commission's final decision (see section 7.1 of Part XX ("Additional Information") of the Rights Issue Prospectus (as incorporated by reference herein) for a summary for the GAPS Withdrawal Deed).

6 Background to GAPS

Given the extremely uncertain outlook for the UK economy at the end of 2008 and into 2009, the Group worked with the FSA to identify and analyse the potential impact of an extended and severe UK recession on the Group's regulatory capital ratios. Due to the significant uncertainty at that time over the length and depth of the recession, the Group was tested against the FSA Stress Test.

The FSA has stated that the assumptions underlying the FSA Stress Test were not intended to be a forecast of what was likely to happen, but were designed to be a severe economic scenario. These assumptions included a peak-to-trough fall in UK GDP of over 6 per cent., with growth not returning until 2011 and only returning to trend-rate growth in 2012. They also included assumptions that unemployment would rise to just over 12 per cent., that the UK would experience a 50 per cent. peak-to-trough fall in house prices and that there would be a 60 per cent. peak-to-trough fall in commercial property prices.¹

The conclusion from this exercise was that the Group would need additional capital to enable it to absorb the future impairments anticipated in such a severe scenario.

As a result, on 7 March 2009, the Group announced its intention to participate in GAPS in respect of certain assets with an aggregate par value of approximately £260 billion. This announcement was made, in part, on the basis of the term sheet published by HM Treasury on 26 February 2009, which set out the expected key terms, conditions and operational principles of GAPS.

As consideration for entering into GAPS, it was expected that the Group would pay a participation fee to HM Treasury of £15.6 billion, to be amortised over an estimated seven-year period. The proceeds of this fee would have been applied by HM Treasury in subscribing for an issue of B Shares by the Company. In addition to the participation fee, the Group would also have had to assume 100 per cent. of the losses relating to the first £35 billion of impairments (including historical impairments and write-downs) relating to the assets covered by GAPS (the "First Loss") and a further 10 per cent. of cumulative losses in the whole portfolio of assets thereafter, up until the date specified as the maturity date of each covered asset.

The £15.6 billion of B Shares would have carried an annual dividend to be paid to HM Treasury (subject to the availability of distributable reserves and any restriction on payment of dividends that might have been required by the European Commission) of the greater of 7 per cent. of the issue price of the B Shares and 125 per cent. of any dividend on Ordinary Shares for each period. It was expected that the dividend payable on the B Shares would have been at least £1.1 billion per annum, subject to the availability of distributable reserves.

The entry into GAPS was intended to provide two key benefits to the Group. First loss relief, particularly in a scenario of severe economic stress such as would be implied by the FSA Stress Test. Once the First Loss had been utilised (the Group would not have been exposed to the full amount of losses it might otherwise have incurred in respect of non-performing assets covered by the scheme). Second, the entry to GAPS was intended to provide regulatory capital relief (or an increase in the Group's core tier 1 capital ratio), arising from a reduction in the Group's risk-weighted assets as well as the generation of new core tier 1 capital through the issuance of the B Shares.

As explained in paragraph 7 of this letter, however, the Board no longer believes that the entry into GAPS, either on the terms announced in March 2009 or on any such revised terms which the Board believes may currently be available to the Group, is in the best economic interests of its shareholders.

7 Background to the Proposals

The Group accepts and agrees with the merits of severe stress testing of regulatory capital, and the Proposals, together with other management actions which the Board considers to be readily actionable, are specifically designed to provide the capital enhancement that the Board believes is necessary to meet the capital requirements of the FSA Stress Test. The Board believes that, since commencing the negotiation of the terms of GAPS, the UK economy has begun to stabilise and is now expected to return to growth in 2010. Accordingly, the Board believes that the likelihood of the UK economy deteriorating to the levels implied by the FSA Stress Test, the assumptions behind which remain unchanged, is now materially lower than was the case in March 2009.

Since March 2009, the Group's core business has proved to be resilient despite the difficult economic circumstances under which it has had to operate.

In addition, the Group has completed detailed credit reviews of the Group's asset portfolio in accordance with the Group's risk management approach, including, most importantly, the legacy HBOS portfolio and file-level credit revenues of the Group's wholesale portfolio. This analysis, in conjunction with management's view of the economic outlook for the UK, underpins the Board's

¹ Source: FSA statement on its use of stress tests, FSA/PN/068/2009.

belief that the Group's overall impairments peaked in the first half of the current year, and that overall impairments in the second half of the year will be lower than in the first half.

It also gives the Board a high level of confidence both in the adequacy of the substantial impairments which it has already taken against these assets (including with respect to the Group's commercial and residential property exposures) and in the scale and timing of expected future impairments. Further detail on Group impairments by division is set out below, and in the Interim Management Statement (set out in the appendix to Part IX ("Information on the Group") of the Rights Issue Prospectus (as incorporated by reference herein)).

Impairments

A significant proportion of the Group's impairments to date have originated in the Group's Wholesale division, primarily reflecting the significant and rapid decline in commercial property prices and reducing levels of corporate cash flow. The Group's impairments were also impacted by the exposures in certain legacy HBOS portfolios, which were more sensitive to the downturn in the economic environment. Having analysed the portfolio of Wholesale assets, the Board expects a significant overall reduction in the Wholesale impairment charge in the second half of 2009, with a further improving trend in 2010.

In the Retail division, the Company has experienced a change in the mix of impairments in the first half of 2009, as the relative weighting between secured and unsecured impairments returned to a more normal pattern. This change has been more positive than expected due to a variety of factors, including: (i) a stabilising outlook for house prices (which has had a positive impact, primarily on the secured portfolio); (ii) increasing levels of unemployment (which has had a negative impact, primarily on the unsecured portfolio); and (iii) lower than previously expected house repossessions as customers benefit from the low interest rate environment and therefore lower mortgage payments (which has had a positive impact, primarily on the secured portfolio). In light of these trends, and management's expectations with regard to the UK economic outlook, the Board believes that Retail impairments will peak in the second half of 2009, with an improving trend expected in 2010.

In the Wealth and International division, the impairment charge increased in the first half of 2009 reflecting significant provisions against the Group's Irish and Australian commercial real estate portfolios. The Group continues to have ongoing concerns with regard to the outlook for the Irish economy and expects the high level of impairments to continue throughout 2009.

In conclusion, given its view of the economic outlook for the UK, the Board believes that at the Group level, the overall impairment charge has now peaked and that the overall impairments charge in the second half of 2009 will be significantly lower than the overall impairments charge in the first half of 2009, with a significantly improving trend thereafter.

GAPS

Since 7 March 2009, the Company has been working closely with HM Treasury to finalise the terms and conditions and operational mechanics of the Group's participation in GAPS. However, as these terms and conditions were being negotiated, it became clear that the benefits of GAPS to the Group would have been materially less extensive and that the costs to the Group of participating in the scheme, both financially and in terms of management time, would have been materially higher (and the impact on the Group materially more onerous) than was anticipated by the Board at the time its intended participation in GAPS was announced. The following issues in particular are relevant:

Capital Relief: The capital relief arising as a result of the large reduction in risk-weighted assets would have been much lower than had been anticipated by the Board in March 2009. This is due to various factors, including the fact that: (i) in March 2009 significant benefit was expected to arise in respect of the group's Treasury assets (however, the Group has (with FSA approval) successfully securitised those assets and thereby reduced the risk-weighting of the assets) and (ii) updated, more accurate forecasting has changed the Group's expectations of its quantum of risk-weighted assets. Further, it has become clear to the Board that the operation of GAPS, as it would apply to the Group would serve to remove certain assets from coverage within a short period after commencement of the scheme which would mean the risk-weighted asset relief afforded by GAPS would reduce more quickly than had been anticipated by the Board in March.

GAPS Rules: The development of the detailed scheme rules for GAPS since the GAPS term sheet was published in February 2009 has meant that in many areas the scheme rules are more

disadvantageous for the Group than the position which had been anticipated by the Board when it announced its initial intention to participate. In practice, the Board believes it is highly likely that the operation of GAPS would have been economically unsatisfactory for the Group.

For example, although it is expected that, under GAPS, losses relating to restructuring events would be covered, the Group may not have benefited from full coverage for certain restructuring and refinancing activities.

Consideration of alternative solutions

These circumstances and improved economic conditions caused the Board to consider alternative solutions that might provide superior economic value to shareholders than entry into GAPS. These potential alternative solutions included:

- renegotiating the commercial terms of GAPS, the type and quantum of assets covered by the scheme and the scheme rules;
- not entering into GAPS at all and instead raising sufficient additional capital on the public capital markets; or
- a combination of either of the above options.

Over the past few months, the Board has had negotiations with HM Treasury and discussions with other relevant authorities in relation to these potential alternatives. The Board gave careful consideration to possible alternative formulations of GAPS, including a possible combination of a smaller version of GAPS with elements of the Proposals. The Board concluded it would not be in the best interests of its shareholders to pursue these alternative formulations for the reasons set out below:

- **State aid:** The alternative formulations of GAPS would, in the view of the Board, constitute additional state aid, which would likely require more severe compensatory measures than is expected to be the case if the Proposals are implemented;
- **Uncertainty of outcome and potential delay:** There was no agreement between the Group and HM Treasury either on the general outline of any specific alternative formulation of GAPS or on the precise commercial terms on which any alternative formulation would have been made available to the Group. While the Board believes that had negotiations continued, they would have been conducted in good faith, it had no certainty as to the outcome of such negotiations or whether or when such negotiations would have been concluded to the parties' mutual satisfaction, whereas the Proposals can be implemented immediately;
- **Shareholder dilution:** The issue of any B Shares in connection with a renegotiated or reduced form of GAPS would still have resulted in dilution for Ordinary Shareholders (other than HM Treasury) and would have increased the percentage holding of HM Treasury in the Company, thereby potentially delaying and making more difficult any eventual orderly exit by HM Treasury from its shareholding;
- **Non-market-based solution:** The Board's aim is that the Group returns to being a self-standing, wholly privately-financed institution as soon as practicable. The Board believes that the Proposals advance this objective more quickly and effectively than would have been the case had the Group participated in GAPS. At the same time, the Proposals improve the quality of the Group's capital structure in a way that is to the long-term benefit of the Group; and
- **Cost and complexity:** The alternative formulations of GAPS would have involved additional administrative and reporting structures which would, in the Board's view, have inhibited the Group's operational and commercial flexibility.

8 Principal terms of the Exchange Offers

The Exchange Offers comprise two separate offers in respect of certain tier 1 and upper tier 2 securities issued by various members of the Group, as follows:

- (i) the Exchange Offer will be made to the holders of 6 series of securities, comprising upper tier 2 securities in an aggregate principal amount of £1.74 billion and tier 1 securities in an aggregate principal amount of £0.46 billion; and

- (ii) a separate offer (the “Non-US Exchange Offer”) will be conducted in certain countries outside the United States and will be available only to non-US persons with respect to 52 series of certain tier 1 and upper tier 2 securities, comprising upper tier 2 securities in an aggregate principal amount of £2.52 billion, innovative tier 1 securities in an aggregate principal amount of £7.68 billion and preference shares (or equivalents) with an aggregate liquidation preference of £4.09 billion. This document relates only to the Exchange Offer and not to the Non-US Exchange Offer.

Eligible Holders (subject to certain offer restrictions set out in Part VI (“The Exchange Offer – Offer Restrictions”) herein), are invited to Offer to Exchange any or all of their Existing Securities that are outstanding, upon the terms and subject to the conditions set out in this document, for ECNs as specified in Part III (“Summary Offering Table”) of this document. The Exchange Offer is being made in certain countries outside the United States and to holders in the United States who are QIBs as defined in Rule 144A under the Securities Act.

The Exchange Offer will commence on 3 November 2009 and will expire at midnight, 12.00 a.m., New York City time, on 7 December 2009, unless the Exchange Offer Period is extended or closed earlier. The “Early Tender Period” will commence on 3 November and will expire at 5.00 p.m., New York City time, on 20 November 2009 (the “Early Tender Deadline”). Tenders may be withdrawn at any time prior to 5.00 p.m., New York City time, on 20 November 2009 (the “Withdrawal Deadline”), except in the limited circumstances described in “Terms of the Exchange Offer – Withdrawal Rights”.

Existing Securities issued by HBOS plc and HBOS Capital Funding No.2 L.P. tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No. 1 plc and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Existing Securities issued by BOS and Lloyds TSB Bank plc tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No. 2 plc and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Lloyds TSB Bank plc. Upon expiration of the Exchange Offer Period, the relevant ECN Issuer will, if it accepts any Offers to Exchange accept Offers to Exchange in accordance with the Exchange Priority set out in Appendix 1 to this document when accepting Offers to Exchange into ECNs.

Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange. Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange. Each Holder will also be entitled to receive the Accrued Interest Payment in respect of their Existing Securities so accepted for exchange.

The Exchange Offers are fully underwritten by the Dealer Managers as described below and as discussed further in sections 8.5 and 8.6 of Part XX (“Additional Information”) of the Rights Issue Prospectus (as incorporated by reference herein). The Dealer Managers have severally agreed to underwrite one or more further issues of ECNs in an aggregate amount of up to £7.5 billion by 30 April 2010. Such ECNs will have the benefit of a guarantee which will rank *pari passu* with Lower Tier 2 obligations of Lloyds TSB Bank on a winding up of Lloyds TSB Bank and will automatically convert into Ordinary Shares if the published consolidated core tier 1 ratio of the Group falls to less than 5 per cent. The conversion price applicable to such conversion shall be the Conversion Price.

Details of further terms and conditions of the Exchange Offer including the procedures for participation, are set out in Part VI (“The Exchange Offer”) of this document.

9 Impact of conversion

The ECNs will convert into Ordinary Shares in certain circumstances. This could have the effect of materially diluting the interests of shareholders at the time of any conversion.

10 Share Subdivision

Under the Companies Act, it is not permissible for a company to issue shares at a discount to their nominal value, which in respect of the Existing Ordinary Shares is currently 25 pence per

share. It is proposed that the Company carries out the Share Subdivision which will reduce the nominal value to 10 pence per share in the Rights Issue. This provides the Company and the Joint Bookrunners with greater certainty that the Issue Price will be able to be set at a 38 per cent. to 42 per cent. discount to TERP irrespective of market conditions. The Board believes that the Share Subdivision also provides the Company access to the best available underwriting structure and terms. Although no decision has currently been made as to the Issue Price, in no circumstances will the Issue Price be below 15 pence. As noted in paragraph 8 of this letter, the Issue Price is expected to be announced on 24 November 2009, two days before the General Meeting. The Proposals are conditional on, amongst other things, the completion of the Share Subdivision.

It is proposed that, pursuant to the Share Subdivision, each existing Ordinary Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided and converted into one ordinary share of 10 pence in the capital of the Company (a "10p Ordinary Share") and one deferred share of 15 pence in the capital of the company (a "Deferred Share"). The purpose of the issue of Deferred Shares is to ensure that the reduction in the nominal value of the Ordinary Shares does not result in a reduction in the capital of the Company.

Each Ordinary Shareholder's proportionate interest in the Company's issued ordinary share capital will remain unchanged as a result of the Share Subdivision. Aside from the change in nominal value, the rights attaching to 10p Ordinary Shares (including voting and dividend rights and rights on a return of capital) will be identical in all respects to those of existing Ordinary Shares. No new share certificates will be issued in respect of the 10p Ordinary Shares as existing share certificates for existing Ordinary Shares will remain valid in respect of the same number of 10p Ordinary Shares arising from the Share Subdivision. The number of Ordinary Shares of the Company listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities shall not change as a result of the Share Subdivision. The Share Subdivision will not affect the Group's or the Company's net assets. Consequently, the market price of a 10p Ordinary Share immediately after completion of the Share Subdivision should, theoretically, be the same as the market price of an Ordinary Share immediately prior to the Share Subdivision.

In addition, it is proposed that, pursuant to the Share Subdivision and as required by Article 3.4.1(i) of the Articles of Association, each existing Limited Voting Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided and converted into one limited voting share of 10 pence (a "10p Limited Voting Share") and one Deferred Share. Aside from the change in nominal value, the rights attaching to 10p Limited Voting Shares will be identical in all respects to those of existing Limited Voting Shares. No new share certificates will be issued in respect of the 10p Limited Voting Shares as existing share certificates for existing Limited Voting Shares will remain valid in respect of the same number of 10p Limited Voting Shares arising from the Share Subdivision.

The Deferred Shares created on the Share Subdivision becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Company, will have the right to receive the amount paid up thereon only after Ordinary Shareholders have received, in aggregate, any amounts paid up thereon plus £10 million per Ordinary Share.

No share certificates will be issued in respect of the Deferred Shares, nor will CREST accounts of shareholders be credited in respect of any entitlement to Deferred Shares, nor will they be admitted to the Official List or to trading on the London Stock Exchange or any other investment exchange. The Deferred Shares shall not be transferable at any time, other than with the prior written consent of the Directors. The rights attaching to, and restrictions upon, the Deferred Shares are set out in Resolution 6.

At the appropriate time, the Company may repurchase the Deferred Shares, make an application to the High Court for the Deferred Shares to be cancelled, or cancel or seek the surrender of the Deferred Shares using such other lawful means as the Directors may determine.

11 Integration of HBOS and synergies update

The Group has completed the planning of its key integration activities and the execution of a broad range of over 100 integration programmes is well underway just over nine months after the Acquisition. The Board is pleased with the progress made so far and remains confident that the Group will meet its commitment to deliver cost synergies and other operating efficiencies from the Acquisition of greater than £1.5 billion per annum by the end of 2011, notwithstanding the business impact of the expected state aid remedies as referred to in paragraph 5 of this letter. The

Company's unaudited interim results announcement on 5 August 2009 highlighted that over £100 million of cost synergies were realised by the Group in the first half of 2009. On the basis of first-half initiatives and programmes to be implemented during the second half of the financial year, the Group expects to finish 2009 with annualised run-rate cost savings of £750 million.

The integration of such a large enterprise as HBOS inevitably takes time, but once the full extent of the benefits of such integration are realised, particularly in light of the Group's view that the economic environment in the UK has begun to stabilise, the Board believes the Group will be in a strong position to create significant value for shareholders.

12 Current trading, trends and prospects

On 5 August 2009, Lloyds Banking Group announced its interim results for the half year ended 30 June 2009. Despite the significant impairments which were announced at that time, the Group was able to demonstrate the continued resilience of its core business.

As announced in the Interim Management Statement, the Group has continued to deliver a good revenue performance in the third quarter of 2009, with similar trends, excluding gains on liability management, to those delivered in the first half of the year. The Group's banking net interest margin has shown clear signs of stabilising in the third quarter of 2009, compared to the first half of the year. The Group continues to deliver a strong cost performance and, in addition, the Board feels that excellent progress has continued to be made on the integration of the enlarged Group, with the achievement of a higher run-rate of cost synergies than those previously announced. The overall run-rate of impairments has slowed in the third quarter of the year. As a result, the Group continues to expect impairments to fall significantly in the second half of 2009, compared to the first half of the year. As previously announced, the Group continues to expect to report a loss before tax for 2009, excluding the impact of the £11.2 billion credit relating to negative goodwill.

As reported in the Interim Results News Release, the Group has identified approximately £300 billion of assets associated with non-relationship lending and investments, including business which is outside its current risk appetite, which may have been earmarked for GAPS protection were the Group to participate in the scheme. The Group's approach to managing these assets would be the same whether or not it moves forward with the Proposals or participates in GAPS. It is the Group's intention to manage such assets for value and run them down over time given the current economic climate. Over the next five years, the Group expects to achieve a reduction in such assets of approximately £200 billion, which equates to approximately 20 per cent. of the Group's total balance sheet assets as at 30 June 2009. The impact of running down those assets is not expected to have a materially negative impact on the Group's income over the five year period.

The full text of the Interim Management Statement is set out in the Appendix to Part IX ("Information on the Group") of the Rights Issue Prospectus (as incorporated by reference herein).

13 Group capital and liquidity policies

In September 2008, the Group set out a target that its core tier 1 capital ratio be in the range of 6 to 7 per cent. Reflecting the increase in expected levels of core tier 1 capital across the industry since that time, the Board's target has now been increased to be more than 7 per cent.

As discussed above, the Rights Issue will raise a total of £13.5 billion of core tier 1 capital before expenses of the Proposals and before the making of the GAPS Payment. Had the Rights Issue been completed as at 30 June 2009, this would have resulted in a pro forma core tier 1 capital ratio for the Group of approximately 8.6 per cent. after expenses of the Proposals and the GAPS Payment. Further details on the Group's capital resources and liquidity are incorporated by reference in Part XVI ("Capital Resources") of this document.

14 Dividends and dividend policy

As a result of the expected state aid remedies referred to in paragraph 5 of this letter, the Company expects to be prevented from making discretionary (contractually deferrable or waivable) coupon and dividend payments on hybrid capital securities or making voluntary calls on such securities from 31 January 2010 until 31 January 2012 see Risk Factor 2.1. Should the Group be prevented from making such payments, the Company will be restricted by the terms of such hybrid capital securities from paying dividends on its Ordinary Shares for the same duration of such restrictions. However, the Board intends to resume dividend payments on its Ordinary Shares as soon as market conditions and the financial position of the Group permit, subject to the expiry of

the restrictions outlined above. See also Risk Factor 1.5 in the Rights Issue Prospectus (as incorporated by reference herein).

15 Consequences of certain of the Resolutions not being passed

The Board believes that the Proposals provide a more attractive alternative to participating in GAPS and offer superior economic value to shareholders. Should any of the Proposals Resolutions not be approved by the relevant Ordinary Shareholders, the Proposals will not proceed. Should the Proposals not proceed, the Group may not be able to meet the regulatory capital ratios required to be maintained by the FSA in the medium and long term and, should that be the case, will need to raise additional capital.

The options available to the Board in such circumstances are not yet clear. However, it is highly likely that the Group would need to reopen discussions with HM Treasury regarding its possible participation in GAPS or approach the UK Government for alternative support, although there can be no assurance that the Group would be permitted to enter into GAPS or what form any alternative UK Government support may take. Furthermore, there can be no certainty that any such participation by the Group in GAPS would not be on terms which are more onerous to the Company than the terms announced in March 2009. In addition, such participation or alternative support could require additional state aid remedies. If the Group were permitted to participate in GAPS in these circumstances, it would seek to finalise the terms of its participation as soon as practicable, although there can be no assurance that it would be possible to do so in the near future.

16 Overseas Holders

The attention of Overseas Holders who have registered addresses outside the United Kingdom, or who are citizens of or resident or located in countries other than the United Kingdom, is drawn to the information in Part VI (“The Exchange Offer – Offer Restrictions”) of this document.

17 UK and US taxation

Certain information about UK and US taxation in relation to the Exchange Offer is set out in Part XXI (“Taxation Considerations”) of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom or the United States, you should consult your own independent tax adviser without delay.

18 Action to be taken in respect of the Exchange Offer

To participate in the Exchange Offer please refer to the procedures for doing so described in Section 7 (“Procedures for Participating in the Exchange Offer”) of “Terms of the Exchange Offer” in Part VI (“The Exchange Offer”) of this document.

Holders may contact the Dealer Managers or the Exchange Agents for assistance in answering questions concerning the terms of the Exchange Offer at the respective addresses set out at the end of this document. Questions relating to the procedures for exchange, including the blocking of Existing Securities with DTC, Euroclear or Clearstream, Luxembourg, should be addressed exclusively to D.F. King in the case of procedures relating to DTC and to Lucid in the case of procedures relating to Euroclear and Clearstream, Luxembourg. All procedures relating to the Exchange Offer may be conducted through, and all information relating to the Exchange Offer and the Existing Securities (including copies of this Exchange Offer Memorandum) may, subject as set out under Part VI (“The Exchange Offer – Offer Restrictions”) below, be obtained from both D.F. King and Lucid, the contact details of which are set out at the end of this document.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under the FSMA if you are resident in the UK or, if you are not resident in the UK, from another appropriately authorised independent financial adviser.

19 Further information

You should read the whole of this document and not rely solely on the information set out in the Letter. **In particular, you should read the Risk Factors set out in Part II (“Risk Factors”) of this document.**

Yours sincerely,

Sir Winfried Bischoff
Chairman

APPENDIX TO THE LETTER FROM SIR WINFRIED BISCHOFF, CHAIRMAN OF LLOYDS BANKING GROUP PLC

Capitalised terms used but not otherwise defined in this Appendix shall have the meanings set out in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).

Part A Summary of the Resolutions

The Proposals are conditional upon the approval of the Proposals Resolutions by the relevant Ordinary Shareholders at the General Meeting. The Proposals Resolutions, together with other Resolutions intended to update the Directors' authorities to allot Shares generally and on a non pre-emptive basis, to effect a capitalisation issue for holders of Limited Voting Shares, required by the Articles, and to buy back 6.3674 per cent. preference shares in order to simplify the Group's capital structure, are contained in the notice convening a General Meeting of the Company to be held on 26 November 2009 at Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT at 11.00 a.m. Further details of the Resolutions proposed to be passed at the General Meeting are set out in the notice. The purpose of the General Meeting is to consider and, if thought fit, pass all 12 Resolutions, a summary of each of which is set out below.

Approval of the Share Subdivision

Resolution 1

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 1.

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour, in accordance with Article 5 of the Articles of Association.

Resolution 1 proposes that the Share Subdivision be approved. As described in paragraph 10 of this letter, pursuant to the Share Subdivision, each existing Ordinary Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided into one 10p Ordinary Share and one Deferred Share. Furthermore, as required by Article 3.1.4(i) of the Articles of Association, each existing Limited Voting Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided and converted into one 10p Limited Voting Share and one Deferred Share.

The Proposals are conditional on the passing of this Resolution.

Directors' authority to allot shares and rights to subscribe for shares pursuant to the Exchange Offers and the Rights Issue

Resolution 2

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 2.

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 2 proposes to authorise the Board to allot shares or grant rights to subscribe for shares, in accordance with section 551 of the 2006 Act:

- (a) up to a nominal amount of £10 billion in connection with the issue of the Enhanced Capital Notes pursuant to the Exchange Offers, its related Underwriting Agreements (which require issues of ECNs in certain circumstances) and other issues of ECNs, and up to a nominal amount of £1.5 billion in connection with the issue of new Ordinary Shares pursuant to the Exchange Offers, which is, in aggregate, equivalent to approximately 168.9 per cent. of the issued equity share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document. While the Exchange Offers are underwritten up to £7.5 billion, to the extent that the Exchange Offers are successful and that a market develops in ECNs, the directors believe it is in the best interests of the Company to have the flexibility to issue further ECNs, to satisfy demand; and

- (b) up to a nominal amount of £9 billion in connection with the issue of new Ordinary Shares to Qualifying Ordinary Shareholders and to Qualifying LV Shareholders in relation to their entitlements under Article 3.1.3 of the Articles which requires that a 'like offer' to that made to Ordinary Shareholders is made to holders of Limited Voting Shares at the relevant time, which is equivalent to approximately 132.2 per cent. of the issued equity share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document.

No Ordinary Shares are held in treasury. This authority will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

Directors' authority to allot shares generally

Resolution 3

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Resolution 3 proposes that, conditional upon the completion of the Rights Issue, the Board will be authorised to exercise all the powers of the Company to allot shares or grant rights to subscribe for or to convert any security into shares, in accordance with Section 551 of the 2006 Act, up to a nominal amount of: (I) £3,908,086,780.50 Ordinary Shares; (II) £100,000,000, U.S.\$40,000,000, €40,000,000 and ¥1,250,000,000 in preference shares; and (III) £3,908,086,780.50 in connection with an offer by way of a rights issue. Each of the authorities referred to in (I) and (III) above is equivalent to approximately 57.4 per cent. of the issued ordinary share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document, and approximately 33.3 per cent. of the Highest Enlarged Share Capital.

Corporate governance guidelines prescribe that this authority be limited to one third of a company's issued ordinary share capital (and up to a further one third of a company's issued ordinary share capital in connection with a rights issue). As described in paragraphs 8 and 10 of this letter the Issue Price can in no circumstances be lower than 15 pence per New Share. Accordingly, the number of New Shares to be issued on completion of the Rights Issue is dependent on the Issue Price and may result in the Actual Enlarged Share Capital being lower than the Highest Enlarged Share Capital if the Issue Price is greater than 15 pence per New Share. In order to comply with these corporate governance guidelines, Resolution 3 proposes that this authority be limited to apply to the issue of up to one third of the Actual Enlarged Share Capital and to a further one third of Actual Enlarged Share Capital in connection with an offer by way of a rights issue.

This authority will expire at the end of the annual general meeting of the Company in 2010. Resolution 3 is proposed to replace the authority given at the general meeting of the Company on 5 June 2009, following the completion of the Rights Issue. The Directors have no present intention of exercising the authority granted by this Resolution 3, other than, if necessary, to satisfy the rights of holders of Limited Voting Shares in respect of the May 2009 Placing and Compensatory Offer in May 2009, and to maintain Lloyds Banking Group's present capital position. The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business needs and opportunities as they arise.

None of the Proposals are conditional on the passing of this Resolution.

Approval of the HMT Transactions

Resolution 4

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 4.

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

As described in paragraph 4 of this letter, the Group has agreed, subject to shareholder approval, to make the GAPS Payment and to pay the HMT Commitment Commission (together, the "HMT Transactions").

As HM Treasury holds more than 10 per cent. of the voting rights in the Company, HM Treasury is a "related party" for the purposes of the Listing Rules, and the HMT Transactions are each "related party transactions" (as defined in the Listing Rules). Rule 11.1.7(3) of the Listing Rules

provides that a related party transaction entered into by a listed company must be approved by its shareholders other than the related party. Therefore, in accordance with the Listing Rules, HM Treasury shall not be entitled to vote on Resolution 4. HM Treasury has further undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on Resolution 4.

Resolution 4 proposes that, conditional on the passing of the Proposals Resolutions, the HMT Transactions be approved.

The Proposals are conditional on the passing of this Resolution.

Capitalisation issue of New Limited Voting Shares

Resolution 5

This Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

Following the capitalisation issue to Ordinary Shareholders which became effective on 11 May 2009 (the "Capitalisation Issue"), the Company is required to issue new Limited Voting Shares to holders of Limited Voting Shares in accordance with article 122 of the Articles on the same basis as new Ordinary Shares were issued to the then Ordinary Shareholders of the Company pursuant to the Capitalisation Issue.

Resolution 5 proposes that, pursuant to article 122 of the Articles, £493,420.75 standing to the credit of any of the Company's share premium account, capital redemption reserve or other undistributable reserve be immediately capitalised for the purposes of paying up 1,973,683 New Limited Voting Shares and that the Board be authorised to issue such shares pursuant to Section 551 of the 2006 Act to the holders of Limited Voting Shares on the Record Date *pro rata* to their existing holdings.

None of the Proposals are conditional on the passing of this Resolution.

Amendment to the Articles of Association to incorporate the rights attaching to the Deferred Shares

Resolution 6

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 6.

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 6 proposes that the Articles of Association be amended to include a new sub-article specifying the limited rights attaching to the Deferred Shares to be issued pursuant to the Share Subdivision.

The Deferred Shares created on the Share Subdivision becoming effective will have no voting or dividend rights and, on a return of capital on a winding up of the Company, will have the right to receive the amount paid up thereon only after Ordinary Shareholders have received, in aggregate, any amounts paid up thereon plus £10,000,000 per Ordinary Share.

The Deferred Shares shall not be transferable at any time, other than with the prior written consent of the Directors. Further details on the rights attaching to, and restrictions upon, the Deferred Shares are set out in Resolution 6.

The Proposals are conditional on the passing of this Resolution.

Market purchases of preference shares in relation to the Exchange Offers

Resolution 7

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 7.

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 7 proposes to grant the Company authority to repurchase the Preference Shares in connection with the Exchange Offers, in accordance with section 701 of the 2006 Act but subject to certain parameters as set out in the resolution itself. This authority is required as the Exchange Offers for Preference Shares technically comprise two individual transactions; the repurchase of the

relevant Preference Shares for cash and the issue of the relevant exchange securities in consideration for this cash. This authority will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

Off-market purchases of preference shares from Equiniti in relation to the Exchange Offers

Resolution 8

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 8.

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

In order to allow the Company the flexibility to effect off-market purchases to Existing Securities in relation to the Exchange Offers and otherwise, the Board is seeking approval, as required by Section 694 of the 2006 Act, of the terms of the contract (as set out below) relating to such off-market purchases.

Resolution 8 proposes that the terms of a proposed contract between Lloyds Banking Group and Equiniti be approved in accordance with Section 694 of the 2006 Act This contract is necessary for the off-market purchase of certain series of Existing Preference Shares which are put on trust with Equiniti pursuant to the terms of the Exchange Offers (“Equiniti Existing Preference Shares”), a draft of which will be produced at the General Meeting and will be made available for inspection at the Company’s registered office for not less than 15 days before the General Meeting.

Pursuant to the terms of the proposed contract, Equiniti has the right to require the Company to purchase, by way of an off-market purchase, any Equiniti Existing Preference Shares held by Equiniti as trustee for holders of the Equiniti Existing Preference Shares, at any time during the 18 months following the date of the General Meeting at a purchase price equal to; (i) in the case of an offer by a holder to exchange its Equiniti Existing Preference Shares for ECNs, the price as set out in Appendix 8 of the Non-US Exchange Offer Memorandum; or (ii) in the case of an offer by a holder to exchange its Equiniti Existing Preference Shares for the relevant Exchange Consideration Amount, the relevant Exchange Consideration Amount.

This authority will expire on 25 May 2011.

The Proposals are conditional on the passing of this Resolution.

Off-market purchase of preference shares from BNY Corporate Trustee Services Limited (“BNY Trustee”) in relation to the Exchange Offers

Resolution 9

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 9.

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

As described in Resolution 8 above, in order to allow the Company the flexibility to effect off-market purchases of certain series of Existing Preference Shares in relation to the Exchange Offers and otherwise, the Board is seeking approval, as required by section 694 of the 2006 Act, of the terms of the contract (as set out below) relating to such off-market purchases.

Resolution 9 proposes that the terms of a proposed contract between Lloyds Banking Group and BNY Trustee be approved in accordance with section 694 of the 2006 Act. This contract is necessary for the off-market purchase of certain Existing Preference Shares which are put on trust with BNY Trustee pursuant to the terms of the Exchange Offers (the “BNY Existing Preference Shares”) a draft of which will be produced at the General Meeting and will be made available for inspection at the Company’s registered office for not less than 15 days before the General Meeting.

Pursuant to the terms of the proposed contract, BNY Trustee has the right to require the Company to purchase, by way of off-market purchase, any BNY Existing Preference Shares held by BNY Trustee as trustee for holders of the BNY Existing Preference Shares at any time during the 18 months following the date of the General Meeting at a purchase price equal to (i) in the case of an offer by a holder to exchange its BNY Existing Preference Shares for ECNs, at the price as set out in Appendix 8 of the Non-US Exchange Offer Memorandum; or (ii) in the case of an offer by a

holder to exchange its BNY Existing Preference Shares for the relevant Exchange Consideration Amount, the relevant Exchange Consideration Amount as set out in Part III of the Non-US Exchange Offer Memorandum; or (iii) in respect of BNY Existing Preference Shares not listed in Appendix 8 or Part III of the Non-US Exchange Offer Memorandum, at a price of 70 cents per U.S.\$1 of liquidation preference of the relevant BNY Existing Preference Shares.

This authority will expire on 25 May 2011.

The Proposals are conditional on the passing of this Resolution.

6.3673 per cent. Preference Share off-market buy-back from two services companies affiliated to Allen & Overy LLP

Resolution 10

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 10 proposes to approve the terms of a proposed contract between Lloyds Banking Group and Allen & Overy Service Company Limited and Fleetside Legal Representative Services Limited (two service companies wholly-owned by Allen & Overy LLP) (the "Sellers"), in accordance with Section 694 of the 2006 Act in relation to the purchase of two 6.3673 per cent. non-cumulative fixed-to-floating rate preference shares of £0.25 each (the "6.3673% Preference Shares"), a draft of which will be produced at the General Meeting and will be made available for inspection at the Company's registered office for not less than 15 days before the General Meeting. Pursuant to the terms of the proposed contract, the Sellers each agree to sell, and the Company agrees to purchase, the 6.3673% Preference Shares for the consideration of £2. This repurchase is not connected with the Proposals in any way but helps the Company to manage its capital structure efficiently. The 6.3673% Preference Shares were issued to the Sellers in exchange for HBOS Preference Shares that were issued to them with a view to avoiding legal uncertainty around voting procedures in respect of the scheme of arrangement sanctioned by the Court on 12 January 2009 that provided for the replacement of HBOS preference shares with Lloyds Banking Group preference shares. This authority will expire on 25 November 2010.

None of the Proposals are conditional on the passing of this Resolution.

Disapplication of pre-emption rights pursuant to the Proposals

Resolution 11

This Resolution is conditional on the passing of each of the Proposals Resolutions, other than this Resolution 11.

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 11 proposes that, without prejudice to any existing power, the Board be empowered to allot equity securities (as defined in section 560 of the 2006 Act):

- (a) up to a nominal amount of £10 billion in relation to the Exchange Offers and other issues of ECNs and up to a nominal amount of £1.5 billion in relation to the issue of new Ordinary Shares in relation to the Exchange Offer; and
- (b) up to a nominal amount of £9 billion in relation to the Rights Issue,

wholly for cash or otherwise, which is equivalent to approximately 301 per cent. of the issued share capital of the Company as at 30 October 2009, being the last practicable date before the publication of this document, as if section 561 of the 2006 Act, to the extent applicable, did not apply to any such allotment.

This Resolution will allow the Company flexibility to allot equity securities pursuant to the Proposals without the need to comply with the strict requirements of the statutory pre-emption provisions.

This power will expire on 25 November 2010.

The Proposals are conditional on the passing of this Resolution.

Disapplication of pre-emption rights generally

Resolution 12

This Resolution will be proposed as a special resolution requiring a 75 per cent. majority of votes in favour.

Resolution 12 proposes, subject to the completion of the Rights Issue, and in addition to the specific power conferred on the Directors by Resolution 3, to renew the power of the Board to issue shares for cash, for example in a rights issue, or to persons other than existing holders of Ordinary Shares, up to a nominal value of £586,213,017, which is equivalent to approximately 8.6 per cent. of the issued Ordinary Share capital of the Company as at 30 October 2009, the last practicable date before the publication of this document, and approximately 5 per cent. of the Highest Enlarged Share Capital.

Corporate governance guidelines prescribe that this authority be limited to the issue of up to five per cent. of a company's issued ordinary share capital. As described in paragraphs 8 and 10 of Part VI ("Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc") of the Rights Issue Prospectus, the Issue Price can in no circumstances be lower than 15 pence per New Share. Accordingly, the number of New Shares to be issued on completion of the Rights Issue is dependent on the Issue Price and may result in the Actual Enlarged Share Capital being lower than the Highest Enlarged Share Capital if the Issue Price is greater than 15 pence per New Share. In order to comply with these corporate governance guidelines, Resolution 12 proposes that this authority be limited to apply to the issue of up to five per cent. of the Actual Enlarged Share Capital.

If the Company were to purchase Ordinary Shares and hold them in treasury, Resolution 12 would give the Board power to sell these shares for cash to persons other than existing holders of Ordinary Shares, subject to the same limit that would apply to issues of Ordinary Shares for cash to these persons. In addition, Resolution 12 authorises the Board to issue shares for cash in connection with a rights issue on a non-pre-emptive basis.

The Board considers the authority in Resolution 12 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions and, if necessary, to satisfy the rights of holders of Limited Voting Shares in respect of the May 2009 Placing and Compensatory Open Offer.

In applying the power to be granted by virtue of Resolution 12, the Company intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares for cash on a non pre-emptive basis (other than pursuant to the Proposals or a separate rights issue or pre-emptive offer) in excess of an amount equal to 7.5 per cent. of the total issued ordinary share capital of the Company within a rolling three-year period without prior consultation with shareholders.

This authority will expire at the end of the annual general meeting of the Company in 2010. Resolution 12 is proposed to replace the power given at the general meeting of the Company on 5 June 2009, following the completion of the Rights Issue.

None of the Proposals are conditional on the passing of this Resolution.

PART VI

THE EXCHANGE OFFER

Overview of the Exchange Offer

The following does not purport to be complete and is qualified in its entirety by the more detailed information provided elsewhere in this Exchange Offer Memorandum. Capitalised terms shall, unless the context otherwise requires, have the meanings set out under Part XXVII “Definitions” of this Exchange Offer Memorandum.

Exchange Offer

LBG Capital No.1 invites all Holders (subject to certain offer restrictions set out in “Offer Restrictions” below) to Offer to Exchange any or all of their Existing Securities that are outstanding upon the terms and subject to the conditions set out in this Exchange Offer Memorandum for ECNs.

Existing Securities issued by HBOS plc and HBOS Capital Funding No.2 L.P. tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.1 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Existing Securities issued by BOS and Lloyds TSB Bank plc tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.2 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Lloyds TSB Bank plc.

Exchange Offer Period

The Exchange Offer will commence on 3 November 2009 and will expire at the Expiration Deadline, unless the Exchange Offer Period is extended by LBG Capital No.1 with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld) as described herein.

Purpose of the Exchange Offer

A discussion of the rationale for the Exchange Offer, and the reasons why Holders of Existing Securities should participate in the Exchange Offer, is set out in Part V “Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc” of this Exchange Offer Memorandum.

Exchange Priority

Upon expiration of the Exchange Offer Period, the relevant ECN Issuer will, if it accepts any Offers to Exchange, accept Offers to Exchange in accordance with the Exchange Priority (as set out in Appendix 1 (“Exchange Priority”) to this Exchange Offer Memorandum) when accepting Offers to Exchange into ECNs and subject to the prorationing described below “—Acceptance of Offers to Exchange”.

Acceptance of Offers to Exchange

The relevant ECN Issuer will, if it accepts any Offers to Exchange, accept Offers to Exchange in accordance with the Exchange Priority set out in Appendix 1 until either (i) it has accepted all of the Existing Securities validly offered and eligible for exchange or (ii) the aggregate principal amount of all series of ECNs to be issued in exchange for Existing Securities is the maximum such amount that can be issued without exceeding the Maximum ECN New Issue Amount as waived or increased from time to time. Where the acceptance in accordance with the Exchange Priority of all valid Offers to Exchange of a series or class of Existing Securities would require a greater aggregate principal amount of ECNs to be issued than the Maximum ECN New Issue Amount, the relevant ECN Issuer will accept such Offers to Exchange on the following basis: (i) first, Existing Securities validly tendered and not validly withdrawn prior to the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class, on a *pro rata* basis up to the Maximum ECN New Issue Amount and (ii) second, if the Maximum ECN New

Issue Amount has not been reached by the first step, Existing Securities that are validly tendered and not validly withdrawn after the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class, on a *pro rata* basis up to the Maximum ECN New Issue Amount.

An Offer to Exchange will only be considered eligible for acceptance by the relevant Issuer if the Exchange Offer Conditions have been satisfied. Neither ECN Issuer has any obligation to Holders to accept any Offers to Exchange and the relevant ECN Issuer may decide not to accept Offers to Exchange for any reason. LBG Capital No.1 reserves the right, subject to applicable laws, to amend the terms of the Exchange Offer, including the right to increase or waive the Maximum ECN New Issue Amount, as described in “Terms of the Exchange Offer – Amendment and Termination”.

New Issue Amount

In respect of each series of ECNs, the principal amount of such series of ECNs to be issued by the relevant ECN Issuers and delivered in exchange for the relevant series or class of Existing Securities pursuant to the Exchange Offer (the “New Issue Amount”), which will be determined by LBG Capital No.1 following the expiration of the Exchange Offer Period and is intended to be announced by Lloyds Banking Group, acting on behalf of the ECN Issuers, on the Results Announcement Date.

Maximum ECN New Issue Amount

The maximum aggregate principal amount of all series of ECNs to be issued by the ECN Issuers for Existing Securities, being an amount equal to U.S.\$800,000,000, save that LBG Capital No.1 shall have the ability, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), to increase or waive such amount in its sole discretion. The relevant principal amount of such Existing Securities shall be converted into pounds sterling at the Fixed Rate of Exchange, as calculated by the Dealer Managers on 17 November 2009.

Minimum New Issue Amount

Holders wishing to participate in the Exchange Offer are required to Offer to Exchange a minimum aggregate principal amount of Existing Securities, which, if such Offer to Exchange is accepted, will entitle such Holder to receive a minimum aggregate principal amount of ECNs equal to or greater than U.S.\$100,000.

Early Tender Deadline

5:00 p.m., New York City time, on 20 November 2009, or such earlier date or later date as notified by Lucid or D.F. King, as the case may be, to the Holders and subject to the right of LBG Capital No.1 to extend, re-open, terminate, withdraw and/or amend the Exchange Offer pursuant to the provisions set out herein.

Withdrawal Rights

Existing Securities Offered to Exchange may only be withdrawn prior to the Withdrawal Deadline, being 5:00 p.m., New York City time, on 20 November 2009. Existing Securities Offered to Exchange may not be withdrawn after the Withdrawal Deadline except in the limited circumstances described in “Terms of the Exchange Offer – Withdrawal Rights”.

Expiration Deadline

Midnight, 12:00 a.m., New York City time, on 7 December 2009, or such earlier or later date as notified by Lucid or D.F. King, as the case may be, to the Holders and subject to the right of LBG Capital No.1 to extend, re-open, terminate, withdraw and/or amend the Exchange Offer pursuant to the provisions set out herein.

Early Exchange Ratio

Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to

the principal amount of the Existing Securities tendered and accepted for exchange.

Each Holder will also be entitled to receive the Accrued Interest Payment in respect of their Existing Securities so accepted for exchange.

Late Exchange Ratio

Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange.

Accrued Interest

On the Settlement Date, the relevant ECN Issuer will pay, or procure that there is paid, to all Holders whose Offers have been accepted, an amount in cash equal to interest accrued and unpaid on such Existing Securities from (and including) the immediately preceding interest payment date in respect of the Existing Securities up to (but excluding) the Settlement Date.

Conversion Price

The Conversion Price will be calculated by the Lead Dealer Managers by (i) taking the greater of (a) the arithmetic average of the daily per share Volume-Weighted Average Price of Ordinary Shares on the London Stock Exchange (calculated in sterling), as displayed under the heading "Bloomberg VWAP" on Bloomberg Page "LLOY <equity> AQR" (or its equivalent successor page if such page is not available), for each of the five consecutive trading days commencing on (and including) 11 November 2009 and ending on (and including) 17 November 2009 and (b) 90 per cent. of the closing price of an Ordinary Share on the London Stock Exchange on 17 November 2009 (the "Unadjusted Conversion Price") and (ii) multiplying the Unadjusted Conversion Price by the Rights Issue Factor.

The Unadjusted Conversion Price will be announced by Lloyds Banking Group plc on 18 November 2009, two Business Days prior to the Early Tender Deadline and the Conversion Price will be announced on 27 November 2009. The Conversion Price shall apply to all series of ECNs issued in the Exchange Offer and shall be subject to adjustment from time to time in accordance with the ECN Deed Poll.

Fixed Rate of Exchange

In respect of Existing Securities that are denominated in a currency other than pounds sterling, the Fixed Rate of Exchange shall be determined by the Lead Dealer Managers by reference to the spot rate of exchange for the conversion of sterling into U.S. dollars prevailing at or about noon (London time) on 17 November 2009 as appearing on or derived from the Relevant Page, and will be announced in the UCP Announcement.

Early Results Announcement

On the Early Results Announcement Date of 23 November 2009, Lloyds Banking Group, acting on behalf of the ECN Issuers, intends to announce the aggregate principal amounts of each series or class of Existing Securities Offered for Exchange during the Early Tender Period.

Results Announcement

On the Results Announcement Date of 8 December 2009, Lloyds Banking Group, acting on behalf of the ECN Issuers, intends to announce (i) whether valid Offers to Exchange pursuant to the Exchange Offer are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities that the ECN Issuers will be accepting for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a pro rata basis and, where accepted on a pro rata

basis, the extent to which such Offers to Exchange will be scaled; (iv) each New Issue Amount; and (v) the Settlement Date.

Existing Securities

The Existing Capital Securities and the Existing Notes. Details of the Existing Securities are set out in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum.

New Securities

The new securities are ECNs.

Applications will be made for the ECNs to be admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange’s Regulated Market.

Conditions to the Exchange Offer

Notwithstanding any other provision of this Exchange Offer Memorandum, neither ECN Issuer has any obligation to Holders to accept any or all Offers to Exchange and each of them may decide not to accept Offers to Exchange for any reason.

Moreover, the relevant ECN Issuer will not accept any Offer to Exchange from Holders of Existing Securities unless all resolutions as may be necessary to approve, effect and implement the Exchange Offer, or the other elements of the Proposals are passed at the Lloyds Banking Group General Meeting (or any adjournment of such meeting).

Amendment of Terms of the Exchange Offer; Termination

Subject to applicable laws and as provided herein, LBG Capital No.1 may, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), extend, re-open, amend, terminate or withdraw the Exchange Offer in any respect (including, without limitation, amending the ECN Conditions) at any time up to and including when Lloyds Banking Group, acting on behalf of the ECN Issuers, announces whether it accepts valid Offers to Exchange pursuant to the Exchange Offer, on the Results Announcement Date, as described in “Terms of the Exchange Offer – Amendment and Termination”. Notice will be given to Holders if the terms and conditions or timing of the Exchange Offer are amended during the Exchange Offer Period if required by applicable law. If LBG Capital No.1 amends or modifies the terms of the Exchange Offer or the information concerning the Exchange Offer in a manner determined by LBG Capital No.1 (in consultation with the Lead Dealer Managers) to constitute a material change to the Holders, LBG Capital No.1 will disseminate additional offer materials and extend the period of the Exchange Offer, including any withdrawal rights, to the extent required by law and as it determines to be necessary.

Procedure for Offering to Exchange Existing Securities

To Offer to Exchange Existing Securities held in DTC, Holders must (i) deliver a properly completed and duly executed Letter of Transmittal, including all other documents required by such Letter of Transmittal prior to the Expiration Deadline and (ii) transmit a DTC Instruction Notice and an agent’s message, to D.F. King prior to the Expiration Deadline (and, in any event, before such earlier deadline as may be imposed by DTC) and in accordance with DTC’s ATOP procedures for transfer. In addition, either (i) a timely confirmation of a book-entry transfer, or a “book-entry confirmation”, of such Existing Securities, if such procedure is available, into D.F. King’s account at DTC pursuant to the procedure for book-entry transfer must be received by D.F. King, prior to the Expiration Deadline, with an agent’s message, or, if applicable, (ii) certificates for such Existing Securities must be received by D.F. King along with the Letter of Transmittal prior to the Expiration Deadline.

In order to be able to receive ECNs on completion of the Exchange Offer, Holders of Existing Securities held in DTC who participate in

the Exchange Offer must, in completing the Letter of Transmittal, provide valid securities account numbers in Euroclear or Clearstream, Luxembourg. Each such Holder must also indicate in the Letter of Transmittal whether such Holder is to receive (i) interests in the applicable Restricted Global Certificate offered in exchange for such Holder's Existing Securities or (ii) interests in the applicable Unrestricted Global Certificate offered in exchange for such Holder's Existing Securities. If a Holder of the Existing Securities held in DTC does not have such an account but wishes to participate in the Exchange Offer, such Holders would need to procure such access in order to receive any ECNs to which they may become entitled pursuant to the Exchange Offer, and should contact their broker, financial adviser, dealer, bank, custodian, trust company or other nominees as soon as possible to arrange access to an account at either Euroclear or Clearstream, Luxembourg, or contact D.F. King for further information. Offers to Exchange Existing Securities received from Holders who do not provide details of a valid Euroclear or Clearstream, Luxembourg, account may not be accepted by either ECN Issuer or Lloyds Banking Group (as the case may be).

In the case of Holders who hold their Existing Securities through Euroclear and/or Clearstream, Luxembourg, Holders must transmit not later than the Expiration Deadline and, in any event, before such earlier deadline as may be imposed by the relevant Clearing System, a duly completed Clearing System Exchange Instruction via Euroclear and/or Clearstream, Luxembourg in the form specified in the relevant Clearing System Notice.

Holders are advised to check with any bank, securities broker or other intermediary through which they hold Existing Securities whether such intermediary needs to receive instructions from a Holder before the deadlines specified in this Exchange Offer Memorandum in order for that Holder to be able to participate in, or (in the circumstances in which withdrawal is permitted) withdraw their instruction to participate in, the Exchange Offer. The deadlines set by each Clearing System for the submission and withdrawal of Exchange Instructions will also be earlier than the relevant deadlines specified in this Exchange Offer Memorandum.

No acknowledgement of receipt of any Exchange Instruction will be given by or on behalf of the ECN Issuers, Lloyds Banking Group, or either of the Exchange Agents.

See “– Terms of the Exchange Offer – Procedures for Participating in the Exchange Offer” for more detailed instructions on how to Offer to Exchange Existing Securities.

Blocking of Existing Securities

The receipt of a Clearing System Exchange Instructions by Euroclear or Clearstream, Luxembourg will be acknowledged by the relevant Clearing System and will result in the blocking of the relevant Existing Securities in Euroclear or Clearstream, Luxembourg. Beneficial Owners must take the appropriate steps through Euroclear or Clearstream, Luxembourg to ensure that no transfers may be effected in relation to such blocked Existing Securities at any time after such date, in accordance with the requirements of the relevant Clearing System and the deadlines required by such Clearing System. By blocking such Existing Securities in Euroclear or Clearstream, Luxembourg, each Holder or Direct Participant will be deemed to consent to have Euroclear or Clearstream, Luxembourg provide details concerning such Holder's and/or Direct Participant's identity to Lucid.

Additionally, Holders who hold Existing Securities through DTC will not be able to effect transfers of such Existing Securities once transferred into D.F. King's account at DTC pursuant to the procedures for book-entry transfer described herein.

Definitive Dollar Existing Notes

Holders of Definitive Dollar Existing Notes must, in order to be eligible to participate in the Exchange Offer, (i) arrange for the relevant principal amount of Definitive Dollar Existing Notes which they wish to Offer to Exchange, to be deposited with a specialised depositary on behalf of either Euroclear or Clearstream, Luxembourg, and (ii) maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such Definitive Dollar Existing Notes can be traded, and to which, if the relevant Holder has Offered to Exchange its Definitive Dollar Existing Notes for ECNs, such ECNs, and any Accrued Interest, may be credited. Holders of Definitive Dollar Existing Notes who do not have access to a Euroclear or Clearstream, Luxembourg account (either directly or through a Direct Participant or other Intermediary), or who do not deposit the Definitive Dollar Existing Notes which they wish to Offer to Exchange with a specialised depositary on behalf of either Euroclear or Clearstream, Luxembourg, will not be able to submit a Clearing System Exchange Instruction to Lucid and will not be eligible to participate in the Exchange Offer.

Acknowledgements, Representations, Warranties and Undertakings of Holders

By Offering to Exchange Existing Securities in the Exchange Offer, Holders will be deemed to make a series of acknowledgements, representations, warranties and undertakings, which are set out in full in “– Terms of the Exchange Offer – Acknowledgements, Representations, Warranties and Undertakings” below.

Settlement

Holders whose Offers to Exchange their Existing Securities have been accepted, and not validly withdrawn by the Early Tender Deadline, by the relevant ECN Issuer and who will, following such acceptance, be entitled to ECNs, will receive such ECNs on the Settlement Date, expected to be on or around 10 December 2009. Such ECNs will only be issued through the facilities of Euroclear and Clearstream, Luxembourg.

Offer Restrictions; Transfer Restrictions

The Exchange Offer is subject to offer restrictions. See “– The Exchange Offer – Offer Restrictions” as set out in this Part VI. In the United States, only Eligible Holders are authorised to receive this Exchange Offer Memorandum or to participate in the Exchange Offer. The ECNs will not be eligible for resale pursuant to Rule 144A. See “Notice to U.S. Investors” and “Transfer Restrictions”. The Exchange Offer is not being made to any person located or resident in the Republic of Italy.

Offer Restrictions

Notice to all Investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in, or incorporated by reference into, this document for any purpose other than considering whether to participate in the Exchange Offer is prohibited. By accepting delivery of or accessing this document, each offeree of the ECNs agrees to the foregoing.

This Exchange Offer Memorandum does not constitute an offer to participate in the Exchange Offer to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The Exchange Offer is being made on the basis of this Exchange Offer Memorandum and is subject to the terms described herein. Each Holder should consult its advisers as needed to make its investment decision and to determine whether it is legally permitted to participate in the Exchange Offer under applicable legal investment or similar laws or regulations.

Each Holder must comply with all applicable laws and regulations in force in any jurisdiction in which it participates in the Exchange Offer, or possesses or distributes this Exchange Offer Memorandum and must obtain any consent, approval or permission required by it for participation in the Exchange Offer under the laws and regulations in force in any jurisdiction to which it is subject, and neither ECN Issuer, Lloyds Banking Group, the Dealer Managers nor any of their respective representatives shall have any responsibility therefor.

United States

The ECNs have not been and will not be registered under the Securities Act, and the ECNs are being offered and will be issued only to (i) “qualified institutional buyers”, as that term is defined in Rule 144A, in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act for transactions by an issuer not involving a public offering or to (ii) persons other than “U.S. persons”, as that term is defined in Rule 902 under the Securities Act, in offshore transactions in reliance upon Regulation S. The ECNs are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws, pursuant to registration or exemption therefrom. The ECNs will not be eligible for resale pursuant to Rule 144A. See “Transfer Restrictions”.

In the United States, only Eligible Holders are authorised to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time and should be able to bear the risk of loss for all or part of their investment.

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

United Kingdom

The communication of this Exchange Offer Memorandum is not being made and this Exchange Offer Memorandum has not been approved by an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000. This Exchange Offer Memorandum is only for circulation to persons within the United Kingdom falling within the definition of Investment Professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)) or within Article 43 of the Order, or other persons to whom it may lawfully be communicated in accordance with the Order.

Australia

This Exchange Offer Memorandum does not constitute a disclosure document, prospectus or product disclosure statement within the meaning of the Australian Securities and Investments Commission.

Notice to Investors in Australia

No disclosure document, prospectus or product disclosure statement in relation to the ECNs has been lodged with the Australian Securities and Investments Commission. The ECNs may not be

offered for issue or issued in Australia, its territories or possessions, nor may an invitation to make an offer to subscribe for ECNs offered by this Exchange Offer Memorandum be made in Australia, its territories or possessions except if the offer or issue is to:

- (i) a person who satisfies the requirements of section 708(8) of the Australian Corporations Act 2001; or
- (ii) a person who is a “professional investor” within the meaning of section 9 of the Australian Corporations Act 2001 (an Australian professional investor),

and such actions comply with all applicable laws or regulations.

Each holder of ECNs will be deemed to have acknowledged, warranted, represented and agreed with the Company that they are persons to whom ECNs (as the case may be) may be issued without an Australian law compliant disclosure document, prospectus or product disclosure statement (such as an Australian professional investor) and that they will not offer to sell or sell ECNs which are issued to them in Australia for 12 months after the issue of those ECNs unless that offer or sale is to a person to whom an offer or sale of ECNs may be made without an Australian law compliant disclosure document, prospectus or product disclosure statement such as an Australian professional investor.

Each holder of ECNs who is issued Ordinary Shares as a result of conversion of the ECNs will be deemed to have acknowledged, warranted, represented and agreed with the Company that they will not offer to sell or sell Ordinary Shares which are issued to them in Australia for 12 months after the issue of those Ordinary Shares unless that offer or sale is made to a person to whom an offer of sale or sale may be made without an Australian law compliant prospectus or disclosure document such as an Australian professional investor.

Hong Kong

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Holders of Existing Securities are advised to exercise caution in relation to the Exchange Offer. If the Holder of an Existing Security is in any doubt about any of the contents of this document, they should obtain independent professional advice. Please note that (i) none of the ECNs may be offered or sold in Hong Kong by means of this document or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (“SFO”) and any rules made thereunder (“professional investors”), or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 32) (“CO”) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (ii) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the ECNs which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to those ECNs which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

Israel

In the State of Israel this document shall not be regarded as an offer to the public to purchase securities under the Israeli Securities Law, 5728 – 1968 (the “ISL”), which requires a prospectus to be published and authorised by the Israel Securities Authority, if it complies with certain provisions of Section 15 of the ISL, including, *inter alia*, if: (i) the offer is made, distributed or directed to not more than 35 investors, subject to certain conditions (the “Addressed Investors”); or (ii) if the offer is made, distributed or directed to certain qualified investors defined in the First Addendum of the ISL, subject to certain conditions (the “Qualified Investors”). The Qualified Investors shall not be taken into account in the count of the Addressed Investors and may be offered to purchase securities in addition to the 35 Addressed Investors. Qualified Investors may have to submit written evidence that they meet the definitions set out in the First Addendum to the ISL. Addressed Investors may have to submit written evidence in respect of their identity. Each of Lloyds Banking Group and the ECN Issuers have not taken, and will not take, any action which would require it to publish a prospectus in accordance with, and subject to, the ISL. Each of Lloyds Banking Group and the ECN Issuers has not and will not distribute this document or make, distribute or direct an

offer to purchase securities to any person within the State of Israel, other than to Qualified Investors and up to 35 Addressed Investors.

Japan

The ECNs issued pursuant to the Exchange Offer have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948) (the “FIEA”) pursuant to an exemption from the registration requirement applicable to a private placement of securities to a limited number of investors and qualified institutional investors (as defined in Article 2, paragraph 3, item 1 of the FIEA, “QIIs”) (“Small Number Private Placement Exemption”) under Article 2, paragraph 3, item 1 of the FIEA. Accordingly, ECNs have not been, directly or indirectly, offered, issued or delivered and will not be, directly or indirectly, offered, issued or delivered in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan who is not a QII; and pursuant to the Small Number Private Placement Exemption, any holder who is a QII and initially acquires the ECNs by offering their Existing Securities and each subsequent holder of such ECNs may not transfer the ECNs to any person that is not a QII.

Singapore

This Exchange Offer Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Exchange Offer Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of ECNs may not be circulated or distributed, nor may ECNs be offered or sold, or be made the subject of an invitation for acquisition, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where ECNs are acquired under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the ECNs pursuant to an offer made under Section 275 except:

- (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law.

Belgium

Neither this document nor any other offering material has been submitted or will be submitted for approval or recognition to the Belgian Banking, Finance and Insurance Commission (“Commission bancaire, financière et des assurances/Commissie voor het Bank-, Financie- en Assurantiewezen”). The Exchange Offer may not be made in Belgium by way of a public offering, as defined in Articles 3 and 6 of the Belgian Law of 1 April 2007 on public takeover bids or as defined in Article 3 of the Belgian Law of 16 June 2006 on the public offer of placement instruments and the admission to trading of placement instruments on regulated markets (the “Belgian Public Offer Law”), each as amended or replaced from time to time. Accordingly, the Exchange Offer may not

be advertised and the Exchange Offer will not be extended and no memorandum, information circular, brochure or any similar documents has or will be distributed, directly or indirectly, to any person in Belgium other than “qualified investors” in the meaning of Article 10 of the Belgian Public Offer Law (as amended from time to time). This document has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the Exchange Offer. Accordingly, the information contained herein may not be used for any other purpose or disclosed to any other person in Belgium.

France

This Exchange Offer is not being made, directly or indirectly, to the public in France and only qualified investors (“*Investisseurs Qualifiés*”) as defined in and in accordance with Articles L.411-1, L.411-2 and D.411-1 and D.411-3 of the French *Code Monétaire et Financier* are eligible to participate in this Exchange Offer. The Exchange Offer Memorandum and any other offering material relating to this Exchange Offer have not been and shall not be distributed to the public in France. This Exchange Offer Memorandum has not been submitted to the clearance of the *Autorité des marchés financiers*.

Italy

The Exchange Offer is not being made in the Republic of Italy. The Exchange Offer and this Exchange Offer Memorandum have not been submitted to the clearance procedure of the Commissione Nazionale per le Società e la Borsa (CONSOB) pursuant to Italian laws and regulations. Accordingly, the Exchange Offer is not made or made available to holders of Existing Securities who are Italian residents and/or persons located in the Republic of Italy and they may not submit acceptances relating to Existing Securities in respect of the Exchange Offer and, as such, any acceptances received from or on behalf of such Holders of Existing Securities shall be ineffective and void. Neither this Exchange Offer Memorandum nor any other information material relating to the Exchange Offer or the Existing Securities may be distributed or made available in the Republic of Italy.

Bahamas

ECNs will not be offered or sold from a place of business within The Bahamas or in a manner constituting the commencement of business in The Bahamas unless by an appropriately licensed or registered individual or entity as permitted pursuant to the Securities Industry Act, 1999 of the Bahamas.

ECNs may not be offered or sold to persons or entities deemed “resident” in The Bahamas pursuant to the Exchange Control Regulations, 1956 of The Bahamas unless the prior approval of the Central bank of The Bahamas is obtained.

General Notice

This Exchange Offer Memorandum is strictly confidential and is supplied for the personal use of the recipient only. Under no circumstances should it be reproduced or distributed to any other persons. The distribution of this Exchange Offer Memorandum in certain jurisdictions may be restricted. Persons into whose possession this Exchange Offer Memorandum comes are required to inform themselves about and to observe any such restrictions. This Exchange Offer Memorandum does not constitute, and may not be used for the purpose of, an offer or solicitation to the public or to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Nothing contained in this document nor the information incorporated by reference herein is intended to constitute or should be construed as business, investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Timetable for the Exchange Offer

The times and dates below are indicative only. The below times and dates are subject, where applicable, to the right of LBG Capital No.1, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), to extend, re-open, amend and/or terminate the Exchange Offer. Accordingly, the actual timetable may differ significantly from the expected timetable set out below.

Events	Dates and Times (Unless otherwise stated, all times are New York City time)
Commencement of the Exchange Offer Period	
Exchange Offer announced. Exchange Offer Memorandum made available to Holders of Existing Securities who have completed and returned an eligibility certification.	3 November 2009
Calculation of the Unadjusted Conversion Price and the Fixed Rate of Exchange	
Date of calculation of the Unadjusted Conversion Price and the Fixed Rate of Exchange	17 November 2009
UCP Announcement	
Announcement of the Unadjusted Conversion Price and the Fixed Rate of Exchange	18 November 2009
Early Tender Deadline	
Cut-off time for receipt by Lucid or D.F. King, as the case may be, of Exchange Instructions intended to be submitted prior to the Early Tender Deadline.	5:00 p.m., New York City time, on 20 November 2009
Withdrawal Deadline	
The deadline for Holders to validly withdraw tenders of Existing Securities.	5:00 p.m., New York City time, on 20 November 2009
Announcement of Early Tender Results	
Announcement of the aggregate principal amounts of each series or class of Existing Securities Offered for Exchange during the Early Tender Period.	By 10.00 a.m., London time on 23 November 2009
Lloyds Banking Group General Meeting	
Date on which Lloyds Banking Group plc will hold its General Meeting.	11:00, London time on 26 November 2009
Conversion Price Announcement	
Announcement of the Conversion Price	27 November 2009
Expiration Deadline	
Deadline for receipt of all Exchange Instructions.	
End of Exchange Offer Period.	12.00 a.m., midnight New York City time, on 7 December 2009
Announcement of Exchange Offer Results	
Announcement of the following: (i) whether valid Offers to Exchange pursuant to the Exchange Offer are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities which the ECN Issuers will be accepting for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a pro rata basis and, where accepted on a pro rata basis, the extent to which such Offers to Exchange will be scaled; (iv) each New Issue Amount; and (v) the Settlement Date.	By 9.00 a.m., London time on 8 December 2009

Events

Settlement Date

Settlement Date of the Exchange Offer, including delivery of the ECNs, in exchange for Existing Securities validly Offered for Exchange and accepted. Expected on 10 December 2009

*Holders are advised to check with any bank, securities broker or other intermediary through which they hold Existing Securities whether such intermediary needs to receive instructions from a Holder before the deadlines specified in this Exchange Offer Memorandum in order for that Holder to be able to participate in, or (in the circumstances in which withdrawal is permitted) withdraw their instruction to participate in, the Exchange Offer. **The deadlines set by each Clearing System for the submission and withdrawal of Exchange Instructions will also be earlier than the relevant deadlines specified in this Exchange Offer Memorandum.***

Unless stated otherwise, announcements in connection with the Exchange Offer will be made by RNS. Such announcements may also be found on the relevant Reuters International Insider Screen and be made by (i) the issue of a press release to a Notifying News Service; (ii) the delivery of notices to the Clearing Systems for communication to Direct Participants; (iii) display on the Luxembourg Stock Exchange's website; and/or (iv) display on Lloyds Banking Group's website. Copies of all such announcements, press releases and notices can also be obtained from the Exchange Agents, the contact details for which are at the end of this Exchange Offer Memorandum. In addition, Holders of Existing Securities may contact the Dealer Managers for information using the contact details on the last page of this Exchange Offer Memorandum.

Terms of the Exchange Offer

1 Exchange Offer

- (a) LBG Capital No.1 invites all Holders (subject to certain offer restrictions set out in “Offer Restrictions”) to Offer to Exchange for the ECNs any or all of such Existing Securities that are outstanding upon the terms and subject to the conditions of the Exchange Offer as further described below. Each series or class of ECNs will be issued up to a maximum aggregate amount equal to the Maximum ECN New Issue Amount.
- (i) Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs of the relevant series specified in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange. Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs of the relevant series specified in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange. Such Holders will also receive any applicable Accrued Interest Payment on the Settlement Date.
- (ii) The Exchange Offer Period will start on 3 November 2009 and end at the Expiration Deadline, unless extended or earlier closed by LBG Capital No.1 with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed). Subject thereto, Holders are invited to Offer to Exchange any or all of their Existing Securities that are outstanding from 3 November 2009 up to midnight, 12:00 a.m., New York City time, on 7 December 2009 subject to any earlier deadlines set by the Clearing Systems or other Intermediaries.
- (iii) Offers to Exchange Existing Securities of HBOS plc and HBOS Capital Funding No.2 L.P. will be made to, and may be accepted by, LBG Capital No.1. Offers to Exchange Existing Securities of BOS and Lloyds TSB Bank plc will be made to, and may be accepted by, LBG Capital No.2. An Offer to Exchange will only be considered eligible for acceptance by the relevant ECN Issuer if the Exchange Offer Conditions and such Offer to Exchange corresponds to an aggregate principal amount of ECNs at least equal to the Minimum New Issue Amount. Neither ECN Issuer is under any obligation to accept any or all Offers to Exchange and the relevant ECN Issuer may decide not to accept Offers to Exchange for any reason.
- (iv) Lloyds Banking Group, acting on behalf of the ECN Issuers, intends to announce, *inter alia*, whether LBG Capital No.1 or LBG Capital No.2 accepts Offers to Exchange on the Results Announcement Date and the aggregate principal amount of each series or class of Existing Securities tendered and Offered for Exchange during the Early Tender Period.
- (v) An Offer to Exchange Existing Securities will only be considered eligible for acceptance by the relevant ECN Issuer if it relates to an aggregate principal amount of Existing Securities that, if such Offer to Exchange is accepted, will entitle the Holder to receive an aggregate principal amount of ECNs equal to or greater than U.S.\$100,000.

Acceptance of Offers to Exchange and Scaling

- (b) Existing Securities issued by HBOS plc and HBOS Capital Funding No.2 L.P. tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.1 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Existing Securities issued by BOS and Lloyds TSB Bank plc tendered and accepted for exchange will be exchanged for ECNs issued by LBG Capital No.2 and unconditionally and irrevocably guaranteed by Lloyds Banking Group plc and Lloyds TSB Bank plc. Upon expiration of the Exchange Offer Period, the relevant ECN Issuer will, if it accepts any Offers to Exchange, accept Offers to Exchange in accordance with the Exchange Priority (as set out in Appendix 1 to this Exchange Offer Memorandum).

- (c) The relevant ECN Issuer will, if it accepts any Offers to Exchange, accept Offers to Exchange in accordance with the Exchange Priority as set out in Appendix 1, until either (i) it has accepted all of the Existing Securities validly offered and eligible for exchange or (ii) the aggregate principal amount of all series of ECNs to be issued in exchange for Existing Securities is the maximum such amount that can be issued without exceeding the Maximum ECN New Issue Amount. Where the acceptance in accordance with the Exchange Priority of all valid Offers to Exchange of a series or class of Existing Securities would require a greater aggregate principal amount of ECNs to be issued than the Maximum ECN New Issue Amount, the relevant ECN Issuer will accept such Offers to Exchange on the following basis: (i) first, Existing Securities validly tendered and not validly withdrawn prior to the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class, on a *pro rata* basis up to the Maximum ECN New Issue Amount and (ii) second, if the Maximum ECN New Issue Amount has not been reached by the first step, Existing Securities that are validly tendered and not validly withdrawn after the Early Tender Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series or class on a *pro rata* basis up to the Maximum ECN New Issue Amount. The relevant ECN Issuer reserves the right, but is under no obligation, to increase or waive the Maximum ECN New Issue Amount.
- (d) Holders whose Existing Securities Offered for Exchange are not accepted, or who do not participate in the Exchange Offer, will not be eligible to receive ECNs in exchange for such Existing Securities and shall continue to hold such Existing Securities subject to their terms and conditions.

Scaling of Offers to Exchange

- (e) Where, in the circumstances set out above, Offers to Exchange in respect of a series or class of Existing Securities (received by Lucid or D.F. King, as applicable, prior to the Early Tender Deadline) are accepted on a *pro rata* basis, for the purposes of such acceptance each such Offer to Exchange will be scaled down by application of a proration factor, equal to (i) the maximum aggregate principal amount of the Existing Securities of such series or class that can be accepted by the relevant ECN Issuer for exchange (after taking into account the Existing Securities of the other relevant series or classes validly tendered prior to the Early Tender Deadline that are to be accepted for exchange first in accordance with the Exchange Priority) without the aggregate principal amount of the ECNs exceeding the Maximum ECN New Issue Amount, divided by (ii) the aggregate principal amount of all of the Existing Securities of such series or class that have been validly Offered for Exchange. If such proration occurs, no Offers to Exchange that were received after the Early Tender Deadline (irrespective of Exchange Priority) will be accepted as the Maximum ECN New Issue Amount will have been reached by such time.
- (f) Where, in the circumstances set out above, Offers to Exchange in respect of a series or class of Existing Securities (which are received by Lucid or D.F. King, as applicable, after the Early Tender Deadline but prior to the Expiration Time) are accepted on a *pro rata* basis, for the purposes of such acceptance each such Offer to Exchange will be scaled by application of a proration factor, equal to (i) the maximum aggregate principal amount of the Existing Securities of such series or class that can be accepted by the relevant ECN Issuer for exchange (after taking into account the Existing Securities that were Offered for Exchange prior to the Early Tender Deadline as well as the Existing Securities of the other relevant series or classes Offered for Exchange after the Early Tender Deadline that are to be accepted for exchange first in accordance with the Exchange Priority) without the aggregate principal amount of the ECNs exceeding the Maximum ECN New Issue Amount, divided by (ii) the aggregate principal amount of all of the Existing Securities of such series or class that have been validly Offered for Exchange.

Exchange for ECNs

- (g) A Holder whose Existing Securities are accepted for exchange in the Exchange Offer (including after any scaling) and who, following the exchange of such Existing Securities on the Settlement Date, will continue to hold in its account with the relevant Clearing System a principal amount of Existing Securities which is less than the minimum denomination for such series or class (whether by virtue of such scaling or otherwise), would need to purchase a

principal amount of Existing Securities of such series or class such that its holding amounts to at least the amount of such minimum denomination. Otherwise such residual holding may not be tradeable in the Clearing Systems.

- (h) Holders of Definitive Dollar Existing Notes must, in order to be eligible to participate in the Exchange Offer, (i) arrange for the relevant principal amount of Definitive Dollar Existing Notes which they wish to Offer to Exchange, to be deposited with a specialised depository on behalf of Euroclear or Clearstream, Luxembourg, and (ii) maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such Definitive Dollar Existing Notes can be traded, and to which, if the relevant Holder has Offered to Exchange its Dollar Definitive Existing Notes for ECNs, such ECNs, and any Accrued Interest, may be credited. Holders of Definitive Dollar Existing Notes who do not have access to an account with Euroclear or Clearstream, Luxembourg (either directly or through a Direct Participant or other Intermediary), or who do not deposit the Definitive Dollar Existing Notes which they wish to Offer to Exchange with a specialised depository on behalf of either Euroclear or Clearstream, Luxembourg, will not be able to submit a Clearing System Exchange Instruction to Lucid and will not be eligible to participate in the Exchange Offer.
- (i) On the Settlement Date, subject to the satisfaction or waiver (if permitted) of the Exchange Offer Conditions, LBG Capital No.1 will deliver, or procure that ECNs will be delivered, to the Holders in respect of the Existing Securities of such Holders validly Offered for Exchange under the Exchange Offer pursuant to the terms set out in this Exchange Offer Memorandum and accepted for exchange by the relevant ECN Issuer. The relevant ECN Issuer will treat the ECNs as issued for a consideration equal to the value of the Existing Securities acquired by that ECN Issuer pursuant to the Exchange Offer. A summary of recent dealing prices of Existing Securities is set out in Appendix 4 (“Recent Prices of the Existing Securities”) to this Exchange Offer Memorandum. In addition, on the Settlement Date, the relevant ECN Issuer will pay, or procure that there is paid, to Holders in respect of the Existing Securities of such Holders validly Offered for Exchange and accepted by the relevant ECN Issuer a cash amount equal to the Accrued Interest Payment on such Existing Securities.

Other Considerations

- (j) Each series of ECNs will be initially represented by one or more registered Global Certificates, which will be held by a common depository on behalf of Euroclear or Clearstream, Luxembourg. Holders who Offer to Exchange their Existing Securities for ECNs must maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such ECNs can be traded, and to which any Accrued Interest Payment may be credited. The ECN Issuers will not issue ECNs in definitive form or which are cleared through DTC. Accordingly, Holders who do not have access to a Euroclear or Clearstream, Luxembourg account would need to procure such access in order to receive any ECNs to which they may become entitled pursuant to the Exchange Offer. **Offers to Exchange Existing Securities received from Holders which do not provide details of a Euroclear or Clearstream, Luxembourg account may not be accepted by the either ECN Issuer.**
- (k) The ECNs will be issued in denominations equal to a minimum denomination of U.S.\$100,000 and integral increments of U.S.\$1,000 in excess thereof. Application will be made for the ECNs to be admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange’s Regulated Market.
- (l) Participating Holders whose Exchange Instructions are received by Lucid or D.F. King, as the case may be, may only withdraw their Offers to Exchange in the circumstances set out under “Withdrawal Rights” below.
- (m) None of the ECN Issuers, Lloyds Banking Group, the Dealer Managers, any Existing Securities Trustee or the Exchange Agents or Lucid (or their respective directors, employees or affiliates) makes any recommendation as to whether or not Holders should Offer to Exchange their Existing Securities.
- (n) Notwithstanding any other provision of this Exchange Offer Memorandum, the ECN Issuers or Lloyds Banking Group or any other member of the Group may, at any time, acquire the Existing Securities which are not Offered for Exchange, or which are offered but not accepted, pursuant to privately agreed market transactions at a price which may be more or less favourable than the terms of the Exchange Offer.

- (o) Where Holders Offer to Exchange their Existing Securities for ECNs, the relevant ECN Issuer will treat the ECNs as issued for a consideration equal to the value of the Existing Securities acquired by that ECN Issuer pursuant to the Exchange Offer. A summary of recent dealing prices of Existing Securities is set out in Appendix 4 (“Recent Prices of the Existing Securities”) to this Exchange Offer Memorandum.

2 Exchange Offer Conditions

Notwithstanding any other provision of this Exchange Offer Memorandum, neither ECN Issuer is under any obligation to Holders to accept any or all Offers to Exchange and each of them may decide not to accept Offers to Exchange for any reason. Moreover, the relevant ECN Issuer will not accept any Offer to Exchange from Holders of Existing Securities unless (i) all resolution(s) as may be necessary to approve, effect and implement the Exchange Offer and authorise and permit the creation and allotment of ECNs are passed at the Lloyds Banking Group General Meeting (or any adjournment thereof) and (ii) the Offer to Exchange corresponds to an aggregate principal amount of ECNs at least equal to the Minimum New Issue Amount.

3 Pricing of the ECNs

Unadjusted Conversion Price and Conversion Price

The Conversion Price is the price per Ordinary Share at which the ECNs will convert into Ordinary Shares upon the occurrence of a Conversion Trigger. There will be one Conversion Price for all series of ECNs issued pursuant to the Exchange Offer.

The Conversion Price will be calculated by the Lead Dealer Managers on 27 November 2009 by:

- (i) taking the greater of (a) the arithmetic average of the daily per share Volume-Weighted Average Price of Ordinary Shares on the London Stock Exchange (calculated in sterling) for each of the five consecutive trading days commencing on (and including) 11 November 2009 and ending on and including 17 November 2009, which is the third Business Day prior to the Early Tender Deadline and (b) 90 per cent. of the closing price of an Ordinary Share on the London Stock Exchange on 17 November 2009 (the “Unadjusted Conversion Price”) and
- (ii) multiplying the Unadjusted Conversion Price by the Rights Issue Factor.

The Volume-Weighted Average Price for any trading day means the per share volume-weighted average price of Ordinary Shares on the London Stock Exchange (calculated in sterling) on that trading day as displayed under the heading “Bloomberg VWAP” on Bloomberg Page “LLOY, <equity> AQR” (or its equivalent successor page if such page is not available) for the period from the scheduled open of trading on the London Stock Exchange on the relevant trading day until the scheduled close of trading on the London Stock Exchange on the relevant trading day (or if such Volume Weighted Average Price is unavailable, the market price of one share of Ordinary Shares on the relevant trading day determined, using a volume-weighted average method, by a financial institution or person (acting as an expert) appointed by LBG Capital No.1 for this purpose).

The Rights Issue Factor shall be determined as follows:

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

where:

RIF is the Rights Issue Factor;

A is the number of Ordinary Shares in issue on 27 November 2009;

B is the number of Ordinary Shares which the aggregate consideration receivable for the Ordinary Shares issued in the Rights Issue, would purchase at the Current Market Price per Ordinary Share on 27 November 2009; and

C is the number of Ordinary Shares to be issued in the Rights Issue.

“Current Market Price” means, in respect of an Ordinary Share at 27 November 2009, the arithmetic average of the daily per share Volume-Weighted Average Price of Ordinary Shares on the London Stock Exchange (calculated in sterling) as displayed under the heading “Bloomberg VWAP” on Bloomberg Page “LLOY <equity> AQR” (or its equivalent successor page if such

page is not available) for each of the 10 consecutive trading days commencing on (and including) 13 November 2009 and ending on (and including) 26 November 2009.

The Unadjusted Conversion Price will be announced at on 18 November 2009, and the Conversion Price will be announced on 27 November 2009. The Conversion Price will be subject to adjustment from time to time in accordance with the Deed Poll.

Fixed Rate of Exchange

The Lead Dealer Managers will determine the Fixed Rate of Exchange (for the purposes of determining the Maximum ECN New Issue Amount) for the conversion of U.S. dollars into sterling by reference to the spot rate of exchange prevailing at or about noon (London time) on 17 November 2009, as appearing on or derived from the Relevant Page. The Fixed Rate of Exchange will be announced pursuant to the UCP Announcement.

4 Exchange Ratio

Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange. Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange. If, as a result of the application of the relevant Exchange Ratio, a Holder would be entitled to receive ECNs which would have an aggregate principal amount that is not an integral multiple of \$1,000, the relevant ECN Issuer will pay, or procure that there is paid, the fractional portion as a Cash Rounding Amount to the relevant Holder on the Settlement Date.

5 Accrued Interest

On the Settlement Date, the relevant ECN Issuer will pay, or procure that there is paid, to all Holders who have validly Offered to Exchange Existing Securities pursuant to the Exchange Offer and which Existing Securities the relevant ECN Issuer has accepted, an amount in cash equal to interest (as the case may be) accrued and unpaid on such Existing Securities from (and including) the immediately preceding interest payment date in respect of the Existing Securities up to (but excluding) the Settlement Date pursuant to the Exchange Offer, provided that the relevant ECN Issuer has deposited the ECNs and the relevant funds have been deposited with the Clearing Systems on or before the Settlement Date, additional interest will not be payable for the period of any delay in respect of the receipt by the Holder of the ECNs or any Accrued Interest Payment.

6 Announcements

UCP Announcement

Lloyds Banking Group will, acting on behalf of the ECN Issuers, announce the Unadjusted Conversion Price and the Fixed Rate of Exchange on 18 November 2009.

Early Results Announcement

Lloyds Banking Group will, on behalf of the ECN Issuers, announce, on the Early Results Announcement Date, the aggregate principal amounts of each series or class of Existing Securities Offered for Exchange during the Early Tender Period.

Results Announcement

Lloyds Banking Group will, on behalf of the ECN Issuers, announce the following on the Results Announcement Date: (i) whether valid Offers to Exchange pursuant to the Exchange Offer are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities that each ECN Issuer will be accepting for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a pro rata basis and, where accepted on a pro rata basis, the extent to which such Offers to Exchange will be scaled; (iv) each New Issue Amount; and (v) the Settlement Date.

Conversion Price Announcement

Lloyds Banking Group will, acting on behalf of itself and the ECN Issuers, announce the Conversion Price on 27 November 2009.

General

Unless stated otherwise, announcements in connection with the Exchange Offer will be made by RNS by Lloyds Banking Group on behalf of the ECN Issuers. Such announcements may also be found on the relevant Reuters International Insider Screen and be made by: (i) the issue of a press release to a Notifying News Service; (ii) the delivery of notices to the Clearing Systems for communication to Direct Participants; (iii) display on the Luxembourg Stock Exchange's website; and/or (v) display on Lloyds Banking Group's website. Copies of all such announcements, press releases and notices can also be obtained from the Exchange Agents, the contact details for whom are on the last page of this Exchange Offer Memorandum. In addition, holders of Existing Securities may contact the Dealer Managers for information using the contact details at the end of this Exchange Offer Memorandum.

7 Procedures for participating in the Exchange Offer

Existing Securities held through DTC

To Offer to Exchange Existing Securities held in DTC pursuant to the Exchange Offer, Holders must (i) deliver a properly completed and duly executed Letter of Transmittal, including all other documents required by such Letter of Transmittal prior to the Expiration Deadline and (ii) transmit a DTC Instruction Notice and an agent's message, to D.F. King in each case at the respective addresses set forth on the back cover of this Exchange Offer Memorandum prior to the Expiration Deadline (and, in any event, before such earlier deadline as may be imposed by DTC) and in accordance with DTC's ATOP procedures for transfer. In addition, either:

- a timely confirmation of a book-entry transfer, or a "book-entry confirmation", of such Existing Securities, if such procedure is available, into D.F. King's account at DTC pursuant to the procedures for book-entry transfer must be received by D.F. King, prior to the Expiration Deadline, with an agent's message, or
- certificates for such Existing Securities must be received by D.F. King along, if applicable with the Letter of Transmittal prior to the Expiration Deadline.

In addition, in order to be able to receive ECNs on completion of the Exchange Offer, Holders of Existing Securities held in DTC who participate in the Exchange Offer must, in completing the Letter of Transmittal, provide valid securities account numbers in Euroclear or Clearstream, Luxembourg. Each such Holder must also indicate in the Letter of Transmittal whether such Holder is to receive (i) interests in the applicable Restricted Global Certificate offered in exchange for such Holder's Existing Securities or (ii) interests in the applicable Unrestricted Global Certificate offered in exchange for such Holder's Existing Securities. If a Holder of the Existing Securities held in DTC does not have such an account but wishes to participate in the Exchange Offer, such Holders would need to procure such access in order to receive any ECNs to which they may become entitled pursuant to the Exchange Offer, and should contact their broker, financial adviser, dealer, bank, custodian, trust company or other nominees as soon as possible to arrange access to an account at either Euroclear or Clearstream, Luxembourg, or contact D.F. King for further information. Offers to Exchange Existing Securities received from Holders who do not provide details of a valid Euroclear or Clearstream, Luxembourg, account may not be accepted by either ECN Issuer or Lloyds Banking Group (as the case may be).

The term "agent's message" means a message, transmitted by DTC to and received by D.F. King and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgement from the tendering participant stating that such participant has received and agrees to be bound by the Letter of Transmittal and that the relevant ECN Issuer may enforce such Letter of Transmittal against such participant.

The method of delivery of Existing Securities, Letters of Transmittal and all other required documents is at a Holder's election and risk. If such delivery is by regular U.S. mail, it is recommended that Holders use registered mail, properly insured, with return receipt requested. In all cases, Holders should allow sufficient time to assure timely delivery. No Letter of Transmittal or Existing Securities should be sent to the ECN Issuers or the Dealer Managers. There are no

guaranteed delivery provisions provided for in conjunction with the Exchange Offer under the terms of this Exchange Offer Memorandum and the Letter of Transmittal.

Signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the Existing Securities surrendered for exchange are tendered:

- by a Holder of Existing Securities who has not completed the box entitled “Special Issuance Instructions” or “Special Delivery Instructions” on the Letter of Transmittal; or
- for the account of an Eligible Institution.

In the event that signatures on a Letter of Transmittal or a notice of withdrawal are required to be guaranteed, such guarantees must be by a firm which is a member firm of an Eligible Institution. If the Existing Securities are registered in the name of a person other than the signer of the Letter of Transmittal, the Existing Securities surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as the relevant ECN Issuer or D.F. King determine in the relevant ECN Issuer’s sole discretion, duly executed by the registered Holders with the signature thereon guaranteed by an Eligible Institution.

If the Letter of Transmittal or any Existing Securities or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing. Unless waived by the relevant ECN Issuer or D.F. King, proper evidence satisfactory to the relevant ECN Issuer of their authority to so act must be submitted with the Letter of Transmittal.

D.F. King will request that an account be established with respect to such Existing Securities at DTC within two business days after the date of this Exchange Offer Memorandum, unless D.F. King already has established accounts with DTC suitable for the Exchange Offer. Any financial institution that is a participant in DTC may make book-entry delivery of Existing Securities by causing DTC to transfer such Existing Securities into D.F. King’s account at DTC in accordance with DTC’s procedures for transfer. Although delivery of Existing Securities may be effected through book-entry transfer at DTC or through the Letter of Transmittal or facsimile thereof, with any required signature guarantees and any other required documents, must, in any case, be transmitted to and received by D.F. King at its address set forth on the back cover of this Exchange Offer Memorandum prior to the Expiration Deadline.

Existing Securities held through Euroclear and/or Clearstream, Luxembourg

The offering of Existing Securities for exchange by a Holder where such Existing Securities are held in a Clearing System will be deemed to have occurred upon receipt by Lucid from the relevant Clearing System of a valid Clearing System Exchange Instruction submitted in accordance with the requirements of such Clearing System. The receipt of such Clearing System Exchange Instruction by the relevant Clearing System will be acknowledged in accordance with the standard practices of such Clearing System and will result in the blocking of the relevant Existing Securities in the Holder’s account with the relevant Clearing System so that no transfers may be effected in relation to such Existing Securities.

Holders and Direct Participants must take the appropriate steps through the relevant Clearing System so that no transfers may be effected in relation to such blocked Existing Securities at any time after the date of submission of such Clearing System Exchange Instruction, in accordance with the requirements of the relevant Clearing System and the deadlines required by such Clearing System. By blocking such Existing Securities in the relevant Clearing System, each Direct Participant will be deemed to consent to have the relevant Clearing System provide details concerning such Direct Participant’s identity to Lucid (and for Lucid to provide such details to the relevant ECN Issuer, Lloyds Banking Group and the Dealer Managers, and their legal advisers).

Only Direct Participants may submit Clearing System Exchange Instructions. Each Holder that is not a Direct Participant must arrange for the Direct Participant through which such Holder holds its Existing Securities to submit a valid Clearing System Exchange Instruction on its behalf to the relevant Clearing System before the deadlines specified by the relevant Clearing System.

By submitting a valid Clearing System Exchange Instruction to the relevant Clearing System in accordance with the standard procedures of such Clearing System, a Holder and any Direct Participant submitting such Exchange Instruction on such Holder’s behalf shall be deemed to make the acknowledgements, representations, warranties and undertakings set out below, to the ECN Issuers, Lloyds Banking Group, Lucid and the Dealer Managers at the Early Tender Deadline, at

the Expiration Deadline and the time of settlement on the Settlement Date (if a Holder or Direct Participant is unable to make any such agreement or acknowledgement or give any such representation, warranty or undertaking, such Holder or Direct Participant should contact Lucid immediately).

Holders of Definitive Dollar Existing Notes

Holders of Definitive Dollar Existing Notes must, in order to be eligible to participate in the Exchange Offer, (i) arrange for the relevant principal amount of Definitive Dollar Existing Notes which they wish to Offer to Exchange, to be deposited with a specialised depository on behalf of either Euroclear or Clearstream, Luxembourg, and (ii) maintain, or where relevant, procure, access to an account with Euroclear or Clearstream, Luxembourg through which such Definitive Dollar Existing Notes can be traded, and to which, if the relevant Holder has Offered to Exchange its Definitive Dollar Existing Notes for ECNs, such ECNs, and any Accrued Interest, may be credited. Upon satisfaction of these conditions, such Holders (or where relevant, their Direct Participant) may Offer to Exchange their Definitive Dollar Existing Notes by the submission of a Clearing System Exchange Instruction to Lucid in accordance with the procedures, deadlines and terms and conditions set out in this Exchange Offer Memorandum.

Offers to Exchange Definitive Dollar Existing Notes must relate to a principal amount of Definitive Dollar Existing Notes which is an integral multiple of U.S.\$10,000 and Holders must submit to a specialised depository on behalf of either Euroclear or Clearstream, Luxembourg, such Definitive Dollar Existing Notes in an amount which corresponds to the relevant principal amount Offered for Exchange. Lloyds TSB Bank and/or BOS do not intend to prepare or print additional Definitive Dollar Existing Notes in respect of any principal amount of such Definitive Dollar Existing Notes which is Offered for Exchange, but is not accepted for exchange. Any such principal amount of Definitive Dollar Existing Notes not accepted will remain deposited with the relevant specialised depository on behalf of either Euroclear or Clearstream, Luxembourg. Holders of Definitive Dollar Existing Notes in the denomination of U.S.\$250,000 will only be entitled to Offer to Exchange a part of such denomination if they arrange for the relevant Definitive Dollar Existing Note (evidencing the entirety of such denomination) to be deposited with a specialised depository as described above.

Holders of Definitive Dollar Existing Notes who do not have access to an account with Euroclear or Clearstream, Luxembourg (either directly or through a Direct Participant or other Intermediary) or who do not deposit the Definitive Dollar Existing Notes which they wish to Offer to Exchange with a specialised depository on behalf of either Euroclear or Clearstream, Luxembourg, will not be able to submit a Clearing System Exchange Instruction to Lucid and will not be eligible to participate in the Exchange Offer.

Withdrawal of Existing Securities Offered to Exchange

Existing Securities validly Offered to Exchange prior to the Withdrawal Deadline and, in the case of Existing Securities held in Euroclear or Clearstream, Luxembourg, any Clearing System Exchange Instruction relating thereto, may only be withdrawn prior to the Withdrawal Deadline.

To be effective, a written notice of withdrawal must be received by D.F. King at the address set forth on the back cover of this Exchange Offer Memorandum or, in the case of an Clearing System Exchange Instruction, received by Euroclear or Clearstream, Luxembourg, as applicable, not later than the Withdrawal Deadline or such earlier deadline as may be set by the relevant Clearing System.

This notice must specify:

- the name of the person having Offered to Exchange the Existing Securities to be withdrawn;
- the Existing Securities to be withdrawn (including the principal amount of such Existing Securities); and
- where certificates for Existing Securities have been transmitted, the name in which such Existing Securities are registered, if different from that of the withdrawing holder.

Holders of Existing Securities are advised to check with the bank, securities broker or any other intermediary through which they hold their Existing Securities whether such intermediary would require receiving instructions to participate in, or withdraw their

instruction to participate in, the Exchange Offer prior to the deadlines set out in this Exchange Offer Memorandum.

Any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Existing Securities and otherwise comply with the procedures of DTC.

LBG Capital No.1 will make a final and binding determination on all questions as to the validity, form and eligibility (including time of receipt) of such notices. Any Existing Securities so withdrawn will be deemed not to have been validly Offered to Exchange for the purposes of the Exchange Offer. Any Existing Securities Offered to Exchange but not exchanged for any reason, will be returned to the holder without cost to such holder (or, in the case of Existing Securities held in DTC and tendered by book-entry transfer into D.F. King's account at DTC pursuant to the book-entry transfer procedures described herein, such Existing Securities will be credited to an account maintained with DTC for the Existing Securities) promptly after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Existing Securities may be retendered by following one of the procedures described herein any time prior to the Expiration Deadline.

8 Acknowledgements, Representations, Warranties and Undertakings

By submitting an Exchange Instruction or Letter of Transmittal, each Holder and the relevant Direct Participant (on behalf of the relevant Holder), in addition to the representations in Section XIX ("Transfer Restrictions") represents, warrants and undertakes that:

- (a) It has received, reviewed, acknowledges, accepts and agrees to the terms of this Exchange Offer Memorandum (including, without limitation, the offering and transfer restrictions set forth in this Exchange Offer Memorandum (including "Part XIX – Transfer Restrictions").
- (b) It is, or in the event that such Holder is acting on behalf of a beneficial owner of the Existing Securities tendered thereby, such Holder has received a written certification from such beneficial owner (dated as of a specific date on or since the close of such beneficial owner's most recent fiscal year) to the effect that such beneficial owner is, an Eligible Holder;
- (c) It is assuming all the risks inherent in participating in the Exchange Offer and has undertaken all the appropriate analysis of the implications of the Exchange Offer, without reliance on the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents.
- (d) If holding through Euroclear or Clearstream, Luxembourg, by blocking Existing Securities in the relevant Clearing System, or by tendering securities through DTC, it will be deemed to consent to the relevant Clearing System providing details concerning its identity to the ECN Issuers, Lloyds Banking Group, the Dealer Managers, the Exchange Agents and their respective legal advisers.
- (e) Upon the terms and subject to the conditions of the Exchange Offer, it Offers to Exchange the principal amount of Existing Securities in its account in the relevant Clearing System for the relevant number of ECNs of the relevant series.
- (f) If the Existing Securities are accepted for exchange, it acknowledges that (i) the Accrued Interest Payment, if any, will be paid in U.S. dollars, (ii) the Accrued Interest Payment in respect of Existing Securities accepted for exchange will be deposited by or on behalf of the ECN Issuer, with the Clearing Systems on the Settlement Date and (iii) the Clearing Systems thereafter will make payments promptly to the relevant accounts in the Clearing Systems of the relevant Holders. The payment to the Clearing Systems on or before the Settlement Date of the aggregate amount of the Accrued Interest Payments, or the payment to the relevant bank account of the same, will discharge the obligation of the relevant ECN Issuer to Holders of the Existing Securities in respect of the payment of such amounts.
- (g) It agrees to ratify and confirm each and every act or thing that may be done or effected by either ECN Issuer or Lloyds Banking Group, any of their respective directors or any person nominated by either ECN Issuer or Lloyds Banking Group in the proper exercise of his or her powers and/or authority hereunder.
- (h) It agrees to do all such acts and things as shall be necessary and execute any additional documents deemed by the relevant ECN Issuer to be desirable, in each case to complete the transfer of the Existing Securities to the relevant ECN Issuer or its nominee in exchange for the ECNs and/or to perfect any of the authorities expressed to be given hereunder.

- (i) It has observed the laws of all relevant jurisdictions; obtained all requisite governmental, exchange control or other required consents; complied with all requisite formalities; and paid any issue, transfer or other taxes or requisite payments due from it in each respect in connection with any offer or acceptance in any jurisdiction and that it has not taken or omitted to take any action in breach of the terms of the Exchange Offer, or which will or may result in the ECN Issuers, Lloyds Banking Group, the Dealer Managers, the Exchange Agents, or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Exchange Offer or invitation for Holders to Offer to Exchange Existing Securities in connection therewith.
- (j) All authority conferred or agreed to be conferred pursuant to its representations, warranties and undertakings and all of its obligations shall be binding upon its successors, assigns, heirs, executors, trustees in bankruptcy, insolvency practitioners and legal representatives and shall not be affected by, and shall survive, its death, incapacity, bankruptcy, insolvency, or any other similar proceedings.
- (k) Except to the extent of the information set forth under "Taxation Considerations", no information has been provided to it by the ECN Issuers, Lloyds Banking Group, the Dealer Managers, any Existing Securities Trustee, or the Exchange Agents with regard to the tax consequences to Holders, Beneficial Owners or Direct Participants arising from the exchange of Existing Securities in the Exchange Offer or the receipt of ECNs and Accrued Interest Payments. It hereby acknowledges that it is solely liable for any taxes and similar or related payments imposed on it under the laws of any applicable jurisdiction as a result of its participation in the Exchange Offer, and agrees that it will not and does not have any right of recourse (whether by way of reimbursement, indemnity or otherwise) against the ECN Issuers, Lloyds Banking Group, the Dealer Managers, any Existing Securities Trustee, the Exchange Agents or any other person in respect of such taxes and payments.
- (l) It is not a person to whom it is unlawful to make an invitation pursuant to the Exchange Offer under applicable laws and it has (before submitting, or arranging for the submission on its behalf, as the case may be, of the Exchange Instruction in respect of the Existing Securities which it is Offering for Exchange) complied with all laws and regulations applicable to it for the purposes of its participation in the Exchange Offer.
- (m) It has full power and authority to submit for exchange and transfer the Existing Securities hereby submitted for exchange and if such Existing Securities are accepted for exchange, such Existing Securities will be transferred to, or to the order of, the relevant ECN Issuer with full title free from all liens, charges and encumbrances, not subject to any adverse claim and together with all rights attached thereto.
- (n) If holding through Euroclear or Clearstream, Luxembourg, it holds and will hold, until the time of settlement on the Settlement Date, the Existing Securities blocked in Euroclear or Clearstream, Luxembourg and, in accordance with the requirements of Euroclear or Clearstream, Luxembourg and by the deadline required by Euroclear or Clearstream, Luxembourg, it has submitted, or has caused to be submitted, a Clearing System Exchange Instruction to the relevant Clearing System, as the case may be, to authorise the blocking of the submitted Existing Securities with effect on and from the date thereof so that, at any time pending the transfer of such Existing Securities on the Settlement Date to the relevant ECN Issuer or on its behalf and the cancellation thereof, no transfers of such Existing Securities may be effected.
- (o) The terms and conditions of the Exchange Offer shall be deemed to be incorporated in, and form a part of, the Exchange Instruction which shall be read and construed accordingly and that the information given by or on behalf of such existing Holder in the Exchange Instruction is true and will be true in all respects at the time of the exchange.
- (p) It accepts that the ECN Issuers are under no obligation to Holders to accept Offers to Exchange, and accordingly Offers to Exchange may be accepted or rejected by the relevant ECN Issuer for any reason; and it accepts that the ECN Issuers may not be able to accept an Offer to Exchange for a variety of reasons.

The receipt from a Holder or from a Direct Participant on behalf of a Beneficial Owner of an Exchange Instruction by the relevant Clearing System will constitute instructions to debit the securities in such Holder's or Direct Participant's account on the Settlement Date in respect of all of the Existing Securities that such Holder or Direct Participant has Offered for Exchange and

which have been accepted, upon receipt by the relevant Clearing System of an instruction from the relevant Exchange Agent, as the case may be, to receive those Existing Securities for the account of the relevant ECN Issuer and (where applicable) against credit of the ECNs and payment by, or on behalf of, the relevant ECN Issuer of any Accrued Interest Payment subject to the automatic withdrawal of those instructions in the event that the Exchange Offer is terminated by LBG Capital No.1 with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed) or the withdrawal of such Exchange Instruction (in the circumstances in which such withdrawal is permitted) in accordance with the procedure set out in this Exchange Offer Memorandum.

9 Responsibility for Delivery of Exchange Instructions

- (a) None of the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents, as the case may be, will be responsible for the communication of Offers to Exchange and corresponding Exchange Instructions by:
 - Beneficial Owners to the Direct Participant through which they hold Existing Securities; or
 - the Direct Participant to the relevant Clearing System.
- (b) If a Holder holds its Existing Securities through a Direct Participant, such Beneficial Owner should contact that Direct Participant to discuss the manner in which exchange acceptances and transmission of the corresponding Exchange Instruction and, as the case may be, transfer instructions may be made on its behalf.
- (c) In the event that the Direct Participant through which a Beneficial Owner holds its Existing Securities is unable to submit an Exchange Instruction, such Beneficial Owner should telephone Lucid or D.F. King, as applicable, for assistance on the numbers provided in this Exchange Offer Memorandum.
- (d) Holders, Direct Participants and Beneficial Owners are solely responsible for arranging the timely delivery of their Exchange Instructions.
- (e) If a Beneficial Owner offers its Existing Securities through a Direct Participant, such Beneficial Owner should consult with that Direct Participant as to whether it will charge any service fees in connection with the participation in the Exchange Offer.

10 Amendment and Termination

Notwithstanding any other provision of the Exchange Offer, LBG Capital No.1 may, subject to applicable laws, at its option and with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), at any time before Lloyds Banking Group, acting on behalf of the ECN Issuers, announces whether the relevant ECN Issuers accept valid Offers to Exchange pursuant to the Exchange Offer, which it is expected to do on the Results Announcement Date:

- (a) extend the Expiration Deadline, Withdrawal Deadline and/or Early Tender Deadline or re-open the Exchange Offer, as applicable (in which case all references in this Exchange Offer Memorandum to “Expiration Deadline” “Withdrawal Deadline” and/or “Early Tender Deadline”, as applicable shall, unless the context otherwise requires, be to the latest date and time to which the Expiration Deadline, Withdrawal Deadline or Early Tender Deadline, as applicable, has been so extended or the Exchange Offer re-opened);
- (b) otherwise extend, re-open or amend the Exchange Offer in any respect (including, but not limited to, any extension, re-opening, increase, decrease or other amendment, as applicable, in relation to the Expiration Deadline, the Settlement Date and/or the ECN Conditions);
- (c) waive or increase the Maximum ECN New Issue Amount;
- (d) delay acceptance or, subject to applicable law, exchange of Existing Securities validly submitted for exchange in the Exchange Offer until satisfaction or waiver (if permitted) of the Exchange Offer Conditions, even if the Exchange Offer has expired;
- (e) terminate the Exchange Offer in respect of any one or more or all series of Existing Securities, including with respect to Exchange Instructions submitted before the time of such termination; or

- (f) in respect of any series of Existing Securities, choose not to accept all valid Offers to Exchange received by the Exchange Agents prior to the Expiration Deadline.

LBG Capital No.1 also reserves the right at any time to waive, where permissible, any or all of the conditions of the Exchange Offer as set out in this Exchange Offer Memorandum.

LBG Capital No.1 will ensure Holders are notified of any such extension, re-opening, amendment or termination as soon as is reasonably practicable after the relevant decision is made through RNS.

Notwithstanding the irrevocability of all Exchange Instructions, on the termination of the Exchange Offer, all Exchange Instructions will be deemed to be withdrawn automatically.

11 Withdrawal Rights

The Withdrawal Deadline is 5:00 p.m., New York City time, on 20 November 2009. Existing Securities Offered to Exchange may be withdrawn at any time prior to the Withdrawal Deadline. Existing Securities Offered to Exchange may not be withdrawn after the Withdrawal Deadline except in the limited circumstances set forth below.

If during the Exchange Offer Period, LBG Capital No.1 amends or modifies the terms of the Exchange Offer (including the terms of the ECNs) (as set out in “– Amendment and Termination” above) or the information concerning the Exchange Offer in a manner determined by LBG Capital No.1 (in consultation with the Lead Dealer Managers) to constitute a material change to the Holders, LBG Capital No.1 will disseminate additional offer materials and extend the period of the Exchange Offer, including any withdrawal rights, to the extent required by law and as it determines to be necessary. For the avoidance of doubt, and without prejudice to the generality of the foregoing, a decision by the relevant ECN Issuer to not accept all valid Offers to Exchange in respect of any series of Existing Securities which are received by the Exchange Agents, prior to the Expiration Deadline, shall not entitle Holders to withdraw Offers to Exchange or, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), to increase or waive the Maximum ECN New Issue Amount shall not entitle Holders to revoke Offers to Exchange.

Holders wishing to exercise any such right of withdrawal should do so in accordance with the procedures of the relevant Clearing System. Holders of Existing Securities that are held through an Intermediary are advised to check with such entity when it would require to receive instructions to withdraw an Exchange Instruction in order to meet the above deadline. For the avoidance of doubt, any Holder who does not exercise any such right of withdrawal in the circumstances and in the manner specified above, shall be deemed to have waived such right of withdrawal and its original Exchange Instruction will remain effective.

12 Irregularities

All questions as to the validity, form and eligibility (including the time of receipt) of any Exchange Instruction, Offer to Exchange Existing Securities or revocation or revision thereof or delivery of Existing Securities will be determined by LBG Capital No.1 in its sole discretion, which determination will be final and binding. LBG Capital No.1 reserves the absolute right to reject any and all Exchange Instructions not in proper form or for which any corresponding agreement by either ECN Issuer to exchange would, in the opinion of LBG Capital No.1, be unlawful. LBG Capital No.1 also reserves the absolute right to waive any of the conditions of the Exchange Offer or defects in Exchange Instructions with regard to any Existing Securities. None of the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents shall be under any duty to give notice to Holders, Direct Participants or Beneficial Owners of any irregularities in Exchange Instructions; nor shall any of them incur any liability for failure to give notification of any material amendments to the terms and conditions of the Exchange Offer.

13 Participation by the Dealer Managers

Each Dealer Manager may submit Exchange Instructions (subject to the offer restrictions set out in “Offer Restrictions”).

14 Governing Law

The terms of the Exchange Offer, including without limitation each Exchange Instruction, and any non-contractual obligations arising out of or in connection with the Exchange Offer shall be

governed by, and construed in accordance with, English law. By submitting an Exchange Instruction a Holder or Direct Participant irrevocably and unconditionally agrees for the benefit of the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Exchange Offer or any of the documents referred to above and that, accordingly, any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

15 Miscellaneous

Holders who need assistance with respect to the procedure relating to making an Offer to Exchange should contact Lucidt or D.F. King, as the case may be, the contact details for whom appear on the back cover of this Exchange Offer Memorandum.

PART VII

OVERVIEW OF THE ENHANCED CAPITAL NOTES

The following description of the ECN Conditions presents an overview of the principal rights and obligations attaching to the ECNs and do not purport to be complete. For a full description of the ECN Conditions, Holders should refer to the full terms and conditions set out in Part A of Appendix 2 of this Exchange Offer Memorandum, which should be read in conjunction with the relevant Pricing Schedule, as set out in Part B of Appendix 2 (“Terms and Conditions of the ECNs”). Capitalised terms used but not otherwise defined in this overview of the ECNs have the same meanings as set out in Part A of Appendix 2 (“Terms and Conditions of the ECNs”).

Issuer	LBG Capital No.1 or LBG Capital No.2, (as applicable) indirect wholly-owned subsidiaries of Lloyds Banking Group, incorporated and tax resident in the United Kingdom.
Guarantor	<p>The ECNs issued by LBG Capital No.1 will be unconditionally and irrevocably guaranteed by Lloyds Banking Group.</p> <p>The ECNs issued by LBG Capital No.2 will be unconditionally and irrevocably jointly and severally guaranteed by Lloyds Banking Group and Lloyds TSB Bank.</p>
Maturity Date	<p>The maturity dates of each series of ECNs will be specified in the applicable Pricing Schedule.</p> <p><i>The maturity date for each series of ECNs has been determined by reference to the corresponding class or series of Existing Securities in accordance with the following principles:</i></p> <ul style="list-style-type: none"><i>(a) in respect of a series of Existing Securities which provides for one or more optional redemption dates and the first of such scheduled optional redemption dates falls before the issue date of the corresponding series of ECNs (or the first tranche thereof), such series of ECNs (or such first tranche thereof) shall have a maturity date of approximately 10 years; and</i><i>(b) in respect of a series of Existing Securities which provides for one or more optional redemption dates and the first of such scheduled optional redemption dates falls on or after the issue date of the corresponding series of ECNs (or the first tranche thereof), such series of ECNs (or such first tranche thereof) will mature on such first scheduled optional redemption date, subject to a minimum maturity of approximately 10 years.</i>
Interest Basis	The rate of interest of each series of ECNs will be set at a fixed premium of approximately 2.5 per cent. above the interest rate of the corresponding series of Existing Securities in exchange for which such ECNs are issued as indicated in the relevant Pricing Schedule.
Interest Payment Dates	Each series of ECNs issued by LBG Capital No.1 will have the same interest payment dates or, in the case of an Existing Security that is a fixed/floating rate security, the interest payment dates corresponding to the fixed rate component thereof, as the interest payment dates of the corresponding series or class of Existing Securities in exchange for which ECNs are issued, as indicated in the relevant Pricing Schedule. The ECNs issued by LBG Capital No.2 in the Exchange Offer will have the interest payment dates indicated in the relevant Pricing Schedule.
Status of the ECNs	The ECNs constitute direct, unsecured and subordinated obligations of the relevant ECN Issuer and rank <i>pari passu</i> and without any preference among themselves. The rights and claims of the ECN Securityholders are subordinated as described in

Condition 3(b). See Part A of Appendix 2 (“Terms and Conditions of the ECNs – Status and Subordination of the ECNs”).

Subordination of the ECNs

In the event of: (i) an order being made, or an effective resolution being passed, for the winding-up of the relevant ECN Issuer (except a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of the relevant ECN Issuer or the substitution in place of the relevant ECN Issuer of a successor in business of such ECN Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the ECN Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the ECNs shall thereby become redeemable or repayable in accordance with the relevant Conditions); or (ii) an administrator of the relevant ECN Issuer being appointed and such administrator declaring, or giving notice that it intends to declare and distribute, a dividend, the rights and claims of the ECN Securityholders against such Issuer in respect of or arising under (including any damages awarded for breach of any obligations under) the ECNs and the Trust Deed relating to them will be subordinated in the manner provided in Condition 3(b) of the ECNs and in the relevant Trust Deed to the claims of all ECN Issuer Senior Creditors but shall rank (A) at least *pari passu* with the claims of holders of all other subordinated obligations of the relevant ECN Issuer and (B) in priority to the claims of holders of all undated or perpetual subordinated obligations of the relevant ECN Issuer and to the claims of holders of all classes of share capital of such ECN Issuer.

“Issuer Senior Creditors” means creditors of the relevant ECN Issuer whose claims are admitted to proof in the winding-up or administration of the relevant ECN Issuer and who are unsubordinated creditors of such ECN Issuer.

Status of the relevant Guarantee

The relevant Guarantor or Guarantors, jointly and severally, as the case may be, have irrevocably and unconditionally guaranteed the due and punctual payment of all principal, premium and interest and any other sums from time to time expressed to be payable by the relevant ECN Issuer in respect of the ECNs and under the Trust Deed in respect thereof. The obligations of each Guarantor under the Guarantee constitute direct and unsecured obligations of that Guarantor, subordinated as described in Condition 4(b). See Part A of Appendix 2 (“Terms and Conditions of the ECNs – Guarantee: Status and Subordination of the Guarantee”).

Subordination of the relevant Guarantee

In the event of: (i) an order being made, or an effective resolution being passed, for the winding-up of the relevant Guarantor (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation of such Guarantor or the substitution in place of such Guarantor of a successor in business of such Guarantor, the terms of which reorganisation, reconstruction, amalgamation of such Guarantor or substitution (x) have previously been approved in writing by the ECN Trustee or by an Extraordinary Resolution and (y) do not provide that the relevant ECNs shall thereby become redeemable or repayable in accordance with these Conditions); or (ii) an administrator of such Guarantor being appointed and such administrator declaring, or giving notice that it intends to declare and distribute, a dividend, the rights and claims of the ECN Securityholders against such Guarantor in respect of or arising under (including any damages awarded for breach of any obligations under) the relevant ECNs and Trust Deed relating to them will be subordinated in the manner

provided in Condition 4(b) and in the Trust Deed to the claims of all Guarantor Senior Creditors, as the case may be, but shall rank (a) at least *pari passu* with all claims of all holders of obligations of such Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital of such Guarantor on a solo and/or consolidated basis; and (b) in priority to (01) the claims of holders of all obligations to such Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, upper tier 2 Capital or tier 1 Capital of such Guarantor on a solo and/or consolidated basis, (02) the claims of all other undated or perpetual subordinated obligations of such Guarantor, and (03) the claims of holders of all classes of share capital of such Guarantor.

“Guarantor Senior Creditors” means, in respect of a Guarantor, (a) creditors of such Guarantor whose claims are admitted to proof in the winding-up or administration of such Guarantor and who are unsubordinated creditors of such Guarantor; and (b) creditors of such Guarantor whose claims are or are expressed to be subordinated to the claims of other creditors of such Guarantor (other than those whose claims relate to obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital or Upper Tier 2 Capital or Lower Tier 2 Capital of the relevant Guarantor on a solo and/or consolidated basis, or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of ECN Securityholders).

Early Redemption Due to Taxation

If, immediately prior to the giving of the notice referred to below, a Tax Event has occurred and is continuing, then the relevant ECN Issuer may, subject to Condition 8(b) and having given not less than 10 nor more than 21 days’ notice to the Trustee, the Principal Paying and Conversion Agent, the Registrar and ECN Securityholders (which notice shall, subject as provided in Condition 8(f), be irrevocable), redeem in accordance with the relevant Conditions at any time (in the case of a Fixed Rate ECN) or on any Interest Payment Date (in the case of a Floating Rate ECN) all, but not some only, of the relevant series of ECNs at their principal amount together with any accrued but unpaid interest to (but excluding) the relevant redemption date. See Part A of Appendix 2 (“Terms and Conditions of the ECNs – Redemption and Purchase – Redemption Due to Taxation”).

Early Redemption for Regulatory Purposes

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the relevant ECN Issuer may, subject to Condition 8(b) and having given not less than 10 nor more than 21 days’ notice to the Trustee, the Principal Paying and Conversion Agent and the ECN Securityholders (which notice shall be, subject as provided in Condition 8(f), irrevocable), redeem in accordance with the relevant Conditions at any time (in the case of a Fixed Rate ECN) or on any Interest Payment Date (in the case of a Floating Rate ECN) all, but not some, of the relevant series of ECNs at their principal amount (or at such other amounts as may be specified in the relevant Pricing Schedule), together with any accrued but unpaid interest to (but excluding) the relevant redemption date. See Part A of Appendix 2 (“Terms and Conditions of the ECNs – Redemption and Purchase – Redemptions for Regulatory Purposes”).

A “Capital Disqualification Event” is deemed to have occurred (1) if, at any time LBG or, where LTSB is a or the Guarantor, LTSB is required under Regulatory Capital Requirements to have regulatory capital, the ECNs would no longer be eligible to qualify in whole or in part (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion in the Lower Tier 2 Capital of LBG or, as the case may be, LTSB on a consolidated basis; or (2) if as a result of any changes to the Regulatory Capital Requirements or any change in the interpretation or application thereof by the FSA, the ECNs shall cease to be taken into account in whole or in part (save where this is only as a result of any applicable limitation on the amount that may be so taken into account) for the purposes of any “stress test” applied by the FSA in respect of the Consolidated Core Tier 1 Ratio.

Mandatory Conversion

If the Conversion Trigger occurs at any time before the occurrence of a Relevant Event, each ECN shall be converted on the relevant Conversion Date into new and/or existing Ordinary Shares credited as fully paid.

The ECNs are not convertible at the option of ECN Securityholders at any time.

The “Conversion Trigger” shall occur if at any time, as disclosed in the latest published annual or semi-annual consolidated financial statements of Lloyds Banking Group or as otherwise publicly disclosed by Lloyds Banking Group at any time, Lloyds Banking Group’s Consolidated Core Tier 1 Ratio is less than 5 per cent.

“Consolidated Core Tier 1 Ratio” means the ratio of the Core Tier 1 capital of Lloyds Banking Group to the risk weighted assets of Lloyd’s Banking Group, in each case, calculated on a consolidated basis.

Conversion Price

The initial Conversion Price will be as set out in the Conversion Price Announcement and such conversion price will be subject to adjustment from time to time in accordance with the Deed Poll. The number of Ordinary Shares to be delivered on Conversion of the ECNs will be determined by dividing the principal amount of such ECNs (translated into pounds sterling at the Prevailing Rate on the second London business day prior to Conversion).

Conversion

In order to obtain delivery of the relevant Ordinary Shares on a Conversion of the ECNs (or, in certain circumstances as provided under “Relevant Event” below, Relevant Shares), an ECN Securityholder must (a) if the ECNs held by it are in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver a duly completed Conversion Notice, together with the relevant ECNs or Certificates representing the same (in the case of Registered ECNs) to the specified office of any Paying and Conversion Agent at least five business days in the relevant place of delivery prior to the relevant Conversion Date (the “Notice Cut-off Date”) or (b) if the ECNs held by it are represented by a Global Security or are in definitive form and held through Euroclear or Clearstream, Luxembourg, give a notice to the Principal Paying and Conversion Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg prior to the Notice Cut-off Date (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Principal Paying and Conversion Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the ECN Securityholder; (2) the principal

amount of ECNs held by it and the subject of the Conversion; (3) the CREST account details or, if on Conversion the Ordinary Shares are not a participating security in CREST, the address to which the Ordinary Shares should be delivered; and (4) such other details as Euroclear or Clearstream, Luxembourg may require. Any reference in this Deed Poll to delivering Conversion Notices and ECNs shall, whilst the ECNs are represented by a Global Security or the relevant ECNs are in definitive form and held through Euroclear or Clearstream, Luxembourg, be construed accordingly.

Subject as provided in the ECN Deed Poll, the relevant Ordinary Shares (or, in certain circumstances as provided under “Relevant Event”, Relevant Shares) will be issued and delivered in accordance with the instructions given in the relevant Conversion Notice, provided the Conversion Notice and the relevant ECNs are delivered not later than the Notice Cut-off Date. If the Conversion Notice and relevant ECNs or the Certificate representing the same (in the case of a Registered ECN) are not delivered to the specified office of a Paying and Conversion Agent on or before the Notice Cut-off Date, then on the relevant settlement date, the relevant Ordinary Shares (or, as the case may be, Relevant Shares) will be issued or transferred and delivered to a person (the “Relevant Person”) selected by LBG. LBG shall procure that all of such Ordinary Shares (or, as the case may be, Relevant Shares) shall be sold by or on behalf of the Relevant Person as soon as reasonably practicable, based on advice from a reputable financial institution, investment or commercial bank or broker selected by LBG, and subject to any necessary consents being obtained and the deduction by the Relevant Person of any amount payable by it in respect of its liability to taxation and the payment of applicable capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Relevant Person in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant ECN Securityholders in accordance with the ECN Conditions or in such other manner and at such time as LBG shall determine and notify to the Dated ECN Securityholders.

Relevant Event

Pursuant to the ECN Deed Poll, if a Qualifying Relevant Event occurs, the ECNs shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, be converted into Relevant Shares of the Approved Entity at a Conversion Price that shall be initially the New Conversion Price and where the principal amount of the ECNs shall (if not denominated in pounds sterling) be translated into pounds sterling at the Prevailing Rate on the second London business day prior to Conversion.

If a Relevant Event occurs that is a Non-Qualifying Relevant Event, then with effect from the date falling eight days following the occurrence of such Relevant Event (if the Acquiror is an Approved Entity) or with effect from the occurrence of such Relevant Event (if the Acquiror is not an Approved Entity) and, in each case, unless the Conversion Trigger shall have occurred prior to such date, outstanding ECNs will not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently.

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

“Excepted Person” means any of:

- (i) the United Kingdom Government;
- (ii) any agency of the United Kingdom Government;
- (iii) any person or entity (other than a body corporate) controlled by the United Kingdom Government or any such agency referred to in (ii) above; and
- (iv) a body corporate in which the United Kingdom Government and/or any agency of the United Kingdom Government and/or any person or entity referred to in (iii) is (directly or indirectly) the legal or beneficial owner of more than 75 per cent. of the issued Ordinary Shares (or equivalent) or of the votes that may ordinarily be cast at a general meeting of shareholders (or the like) of such body corporate.

The “New Conversion Condition” shall be satisfied if by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, Lloyds Banking Group, shall have entered into arrangements to its satisfaction with the Approved Entity for delivery of Relevant Shares upon a Conversion of the Dated ECNs as provided in the Deed Poll.

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

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

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

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

- (i) where the Acquiror is not an Excepted Person:
 - (a) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of Lloyds Banking Group; or
 - (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors of Lloyds Banking Group, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise; or
- (ii) where the Acquiror is an Excepted Person, the acquisition or holding of legal or beneficial ownership of 75 per cent. or more of the issued Ordinary Shares of Lloyds Banking Group.

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

Additional Amounts

All payments in respect of the ECNs will be made without withholding or deduction for, or on account of, taxes of the United Kingdom, unless the withholding or deduction is required by law. In such event, the relevant ECN Issuer or the relevant Guarantor or Guarantors will, subject as provided in Condition 10, pay such additional amounts as will be necessary to ensure that the net amount received by ECN Securityholders, after the withholding or deduction, will equal the amount which would have been receivable in the absence of the withholding or deduction.

Form	<p>Each series of ECNs will be issued in registered form, as indicated in the relevant Pricing Schedule.</p> <p>Each tranche of ECNs issued in registered form will be represented by one or more Global Certificates which will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about the Settlement Date.</p>
Denomination	U.S.\$100,000 and integral increments of U.S.\$1,000 in excess thereof.
Ordinary Shares	The Ordinary Shares to be delivered following conversion will be delivered credited as fully paid and will rank <i>pari passu</i> in all respects with all fully paid Ordinary Shares in issue on the relevant Conversion Date, save as provided in Part A of Appendix 2 (“Terms and Conditions of the ECNs”).
ECN Trustee	BNY Corporate Trustee Services Limited
Principal Paying and Conversion Agent	The Bank of New York Mellon
Governing Law	The Trust Deed, the ECNs and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law, save that where the Guarantor is Lloyds Banking Group, the provisions of Condition 4 (and related provisions in the Trust Deed) relating to the status and subordination of the Guarantee will be governed by, and shall be construed in accordance with, Scots law.
Listing and Trading	Applications will be made for the ECNs to be admitted to the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange.
Clearing	The ECNs have each been accepted for clearing by Euroclear and Clearstream, Luxembourg. The ECNs have the Common Code and International Securities Identification Number as set out in the relevant Pricing Schedule.
Expected Ratings	It is expected that the ECNs guaranteed by Lloyds TSB Bank will be assigned ratings of BB by Standard & Poor’s, Ba2 by Moody’s and BB by Fitch, and that the ECNs guaranteed by Lloyds Banking Group will be assigned ratings of BB- by Standard & Poor’s, Ba3 by Moody’s and BB by Fitch. A rating is not a recommendation to buy, hold or sell securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Mandatory Resale	The ECNs are subject to transfer restrictions as set forth on pages 105 to 107 of this Exchange Offer Memorandum. The Trust Deed will contain provisions entitling the relevant ECN Issuer or Lloyds Banking Group to require the holder or beneficial owner of ECNs represented by an interest in a Restricted Global Certificate to sell its interest in such ECNs or to arrange for such interest to be sold on behalf of the relevant holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) who, in the judgment of Lloyds Banking Group, has purchased its ECNs in a transaction that is not exempt from the registration requirements of the Securities Act.

PART VIII

INFORMATION ON THE GROUP

Information on the Group is set out in Part IX (“Information on the Group”) including the Appendix to Part IX (“Interim Management of Lloyds Banking Group”) of the Rights Issue Prospectus and is incorporated by reference into this document.

PART IX

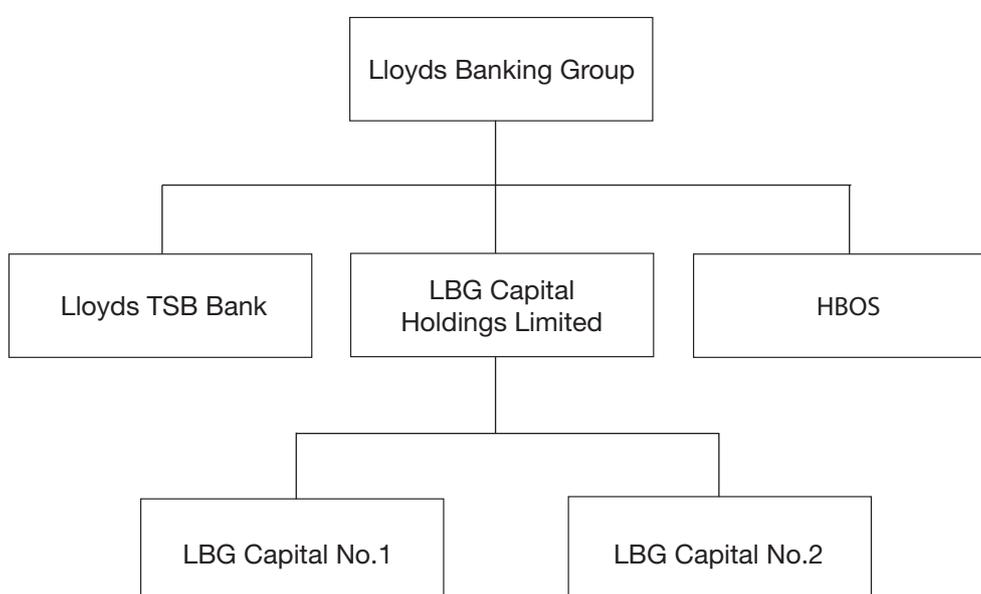
INFORMATION ON THE ECN ISSUERS

Overview

LBG Capital No.1 was incorporated and registered in England on 15 October 2009 with registered number 7045658 as a public company limited by shares. The principal legislation under which LBG Capital No.1 operates is the Companies Act and regulations made thereunder. LBG Capital No.1 is domiciled in the United Kingdom. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500).

LBG Capital No.2 was incorporated and registered in England on 15 October 2009 with registered number 7045669 as a public company limited by shares. The principal legislation under which LBG Capital No.2 operates is the Companies Act and regulations made thereunder. LBG Capital No.2 is domiciled in the United Kingdom. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500).

Each of LBG Capital No.1 and LBG Capital No.2 is a wholly-owned subsidiary of LBG Capital Holdings Limited, which itself is a wholly-owned subsidiary of Lloyds Banking Group.



Business of the ECN Issuers

The ECN Issuers' principal purposes are to effect the Exchange Offer and the Non-U.S. Exchange Offer and to issue the ECNs. Since the date of their incorporation, other than entering into contracts in connection with the Exchange Offer, the Non-U.S. Exchange Offer, and the issue of the ECNs, the ECN Issuers have not commenced business. Neither of the ECN Issuers has any subsidiaries.

Share Capital of the ECN Issuers

Each ECN Issuer has in issue 50,000 ordinary shares of £1.00 each. Each ECN Issuer has authorised the issue of the ECNs to be issued by it pursuant to the terms of the Exchange Offer, as further detailed in Part VII ("Overview of the Enhanced Capital Notes") of this Exchange Offer Memorandum.

Management and Employees

The ECN Issuers have no employees.

Directors

The directors of the ECN Issuers, the business address of whom is 10 Gresham Street, London EC2V 7AE, and their principal outside activities, where significant to the ECN Issuers, are as follows:

Name	<i>Principal outside activities</i>
Andrei Magasiner Director	Group Corporate Treasurer, Group Corporate Treasury, Lloyds Banking Group plc Director of LBG Capital Holdings Limited
Edward Short Director	Group Funding and Capital Markets Issuance Director, Group Corporate Treasury, Lloyds Banking Group plc Director of LBG Capital Holdings Limited
Richard Shrimpton Director	Head of Capital Issuance and Structuring, Group Corporate Treasury, Lloyds Banking Group plc Director of LBG Capital Holdings Limited

None of the directors of the ECN Issuers have any actual or potential conflict between their duties to either ECN Issuer and their private interests or other duties as listed above.

Articles of Association

The ECN Issuers' Articles of Association are incorporated by reference into this document and are available for inspection as set out in section 20 of Part XXV ("General Information") of this Exchange Offer Memorandum. Each of the ECN Issuer's Memorandum of Association is, by virtue of Section 28 of the Companies Act 2006, treated as part of its Articles of Association, including those provisions dealing with each ECN Issuer's objects. Accordingly, the ECN Issuers' objects are unrestricted.

Financial Statements and Auditors' Report

The ECN Issuers will prepare and publish audited financial statements on an annual basis, which will be filed in accordance with English law. The ECN Issuers only intend to prepare audited annual financial statements. As at the date of this Exchange Offer Memorandum, neither ECN Issuer has yet prepared any financial statements.

It is anticipated that the ECN Issuers will have an accounting reference date of 31 December with the first fiscal year ending 31 December 2010. The auditors appointed in respect of each ECN Issuer are PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants of England and Wales.

The audited annual financial statements will be available free of charge at the offices of the ECN Issuers.

Corporate Governance

Each ECN Issuer complies with the corporate governance regime applicable in England.

PART X

REGULATION AND SUPERVISION IN THE UNITED KINGDOM

Information on Regulation and Supervision in the United Kingdom is set out in Part X (“Regulation and Supervision in the United Kingdom”) of the Rights Issue Prospectus and is incorporated by reference into this document.

PART XI
HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS BANKING
GROUP

PART A – Audited Financial Information

1 Basis of Financial Information

The financial statements of the Company included in the consolidated audited Annual Reports and Accounts of the Company for the financial years ended 31 December 2008 (and also included in the Annual Report on Form 20-F for the year ended 31 December 2008), 2007 and 2006, together with the independent auditors' reports, are incorporated by reference into this document. The independent auditors' reports for the financial years ended 31 December 2008, 2007 and 2006 were unqualified. The financial statements for the years ended 31 December 2008, 2007 and 2006 were prepared in accordance with IFRS.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

2.1 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon (included in the Company's Annual Report on Form 20-F)

The page numbers below refer to the relevant pages of the Annual Report and Accounts of the Company for the financial year ended 31 December 2008 included in the Company's Annual Report on Form 20-F:

- Independent Auditors' Report – page F-2;
- Consolidated Income Statement – page F-3;
- Consolidated Balance Sheet – pages F-4 to F-5;
- Consolidated Statement of Changes in Equity – page F-6;
- Consolidated Cash Flow Statement – page F-7; and
- Notes to the Group Accounts – pages F-8 to F-88.

2.2 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of the Company for the financial year ended 31 December 2008:

- Independent Auditors' Report – page 96;
- Consolidated Income Statement – page 97;
- Consolidated Balance Sheet – pages 98 to 99;
- Consolidated Statement of Changes in Equity – page 100;
- Consolidated Cash Flow Statement – page 101; and
- Notes to the Group Accounts – pages 102 to 181.

2.3 Financial Statements for the year ended 31 December 2007 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of the Company for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 76;
- Consolidated Income Statement – page 77;
- Consolidated Balance Sheet – pages 78 to 79;
- Consolidated Statement of Changes in Equity – page 80;
- Consolidated Cash Flow Statement – page 81; and
- Notes to the Group Accounts – pages 82 to 147.

2.4 Financial Statements for the year ended 31 December 2006 and Independent Auditor's Reports thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of the Company for the financial year ended 31 December 2006:

- Independent Auditors' Report – page 62;
- Consolidated Income Statement – page 63;
- Consolidated Balance Sheet – pages 64 to 65;
- Consolidated Statement of Changes in Equity – page 66;
- Consolidated Cash Flow Statement – page 67; and
- Notes to the Group Accounts – pages 68 to 120.

PART B – Unaudited Interim Statutory Information

1 Basis of Financial Information

The unaudited condensed statutory consolidated interim financial statements of Lloyds Banking Group included in the Interim Results New Release for the six months ended 30 June 2009, together with the independent review report thereon, and the comparative information in the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2008 are incorporated by reference into this document. This financial information was prepared in accordance with the Disclosure and Transparency Rules and with IAS 34. For further information, see Part A ("Presentation of Financial and General Information") of Part III ("Other Important Information") of the Rights Issue Prospectus incorporated by reference into this document.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document. The page numbers below refer to the relevant pages of the Interim Results News Release.

- Consolidated Income Statement – page 87;
- Statement of Comprehensive Income – page 88;
- Consolidated Balance Sheet – pages 89 and 90;
- Consolidated Statement of Changes in Equity – page 91;
- Consolidated Cash Flow Statement – page 92;
- Notes to the Group Accounts – pages 93 to 115; and
- Independent Review Report – pages 117 and 118.

PART XII

HISTORICAL FINANCIAL INFORMATION RELATING TO LLOYDS TSB BANK

PART A – Audited Financial Information

1 Basis of Financial Information

The financial statements of Lloyds TSB Bank included in the consolidated audited Annual Reports and Accounts of Lloyds TSB Bank for the financial years ended 31 December 2008, 2007 and 2006 together with the independent auditors' reports, are incorporated by reference into this document. The independent auditors' reports for the financial years ended 31 December 2008 and 2007 were unqualified. The financial statements for the years ended 31 December 2008, 2007 and 2006 were prepared in accordance with IFRS.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

2.1 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB Bank for the financial year ended 31 December 2008:

- Independent Auditors' Report – pages 9 to 10;
- Consolidated Income Statement – page 11;
- Consolidated Balance Sheet – pages 12 to 13;
- Consolidated Statement of Changes in Equity – page 14;
- Consolidated Cash Flow Statement – page 16; and
- Notes to the Accounts – pages 17 to 107.

2.2 Financial Statements for the year ended 31 December 2007 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB Bank for the financial year ended 31 December 2007:

- Independent Auditors' Report – pages 8 to 9;
- Consolidated Income Statement – page 10;
- Consolidated Balance Sheet – pages 11 to 12;
- Consolidated Statement of Changes in Equity – page 13;
- Consolidated Cash Flow Statement – page 15; and
- Notes to the Accounts – pages 16 to 100.

2.3 Financial Statements for the year ended 31 December 2006 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of Lloyds TSB Bank for the financial year ended 31 December 2006:

- Independent Auditors' Report – page 6;
- Consolidated Income Statement – page 7;
- Consolidated Balance Sheet – pages 8 to 9;
- Consolidated Statement of Changes in Equity – page 10;
- Consolidated Cash Flow Statement – page 12; and
- Notes to the Accounts – pages 13 to 73.

PART B – Unaudited Interim Information

1 Basis of Financial Information

The unaudited condensed consolidated interim financial statements of Lloyds TSB Bank included in the Interim Management Report of Lloyds TSB Bank for the six months ended 30 June 2009 are incorporated by reference into this document. This financial information was prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting” as adopted by the European Union.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document. The page numbers below refer to the relevant pages of the Interim Management Report.

- Consolidated Income Statement – page 4;
- Consolidated Statement of Comprehensive Income – page 5;
- Consolidated Balance Sheet – pages 6 to 7;
- Consolidated Statement of Changes in Equity – page 8;
- Consolidated Cash Flow Statement – page 9;
- Notes to the Group Accounts – pages 11 to 25; and
- Independent Review Report – pages 27 to 28.

PART XIII

OPERATING AND FINANCIAL REVIEW RELATING TO LLOYDS BANKING GROUP

PART A – Operating and Financial Review Relating to Lloyds Banking Group for the Years Ended 31 December 2008, 2007 and 2006 and Selected Statistical and Other Information

A review of Lloyds Banking Group's financial condition and operating results for the financial years ended 31 December 2008, 2007 and 2006 including selected statistical and other information can be found on pages 14 to 42 of the Company's 2008 Annual Report on Form 20-F and is incorporated by reference herein.

A review of Lloyds Banking Group's risk management practices can be found on pages 43 to 71 of the Company's 2008 Annual Report on Form 20-F and is incorporated by reference herein.

PART B – Operating and Financial Review relating to Lloyds Banking Group for the Six Months Ended 30 June 2009 and 2008

The Operating and Financial Review relating to Lloyds Banking Group for the six months ended 30 June 2009 and 2008 is set out in Part XII (“Operating and Financial Review relating to Lloyds Banking Group – Part B – Operating and Financial Review Relating to Lloyds Banking Group for the Six Months Ended 30 June 2009 and 2008”) of the Rights Issue Prospectus and is incorporated by reference herein.

PART XIV

HISTORICAL FINANCIAL INFORMATION RELATING TO THE HBOS GROUP

Audited Financial Information

1 Basis of Financial Information

The financial statements of HBOS included in the consolidated audited Annual Report and Accounts of HBOS for the financial years ended 31 December 2008, 2007 and 2006, together with the auditors' reports thereon, are incorporated by reference into this document. The auditors' reports for each of the financial years ended 31 December 2008, 2007 and 2006 were unqualified. The financial statements for the years ended 31 December 2008, 2007 and 2006 were prepared in accordance with IFRS.

2 Cross Reference List

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference into this document.

2.1 Financial Statements for the year ended 31 December 2008 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2008:

- Independent Auditors' Report – page 40;
- Consolidated Income Statement – page 41;
- Consolidated Balance Sheet – pages 42 to 43;
- Consolidated Statement of Recognised Income and Expense – page 44;
- Consolidated Cash Flow Statement – pages 44 to 45; and
- Notes to the Financial Statements – pages 48 to 140.

2.2 Financial Statements for the year ended 31 December 2007 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2007:

- Independent Auditors' Report – page 152;
- Consolidated Income Statement – page 153;
- Consolidated Balance Sheet – pages 154 to 155;
- Consolidated Statement of Recognised Income and Expense – page 156;
- Consolidated Cash Flow Statement – pages 156 to 157; and
- Notes to the Accounts – pages 160 to 223.

2.3 Financial Statements for the year ended 31 December 2006 and Independent Auditors' Report thereon

The page numbers below refer to the relevant pages of the Annual Report and Accounts of HBOS for the financial year ended 31 December 2006:

- Independent Auditors' Report – page 123;
- Consolidated Income Statement – page 124;
- Consolidated Balance Sheet – pages 125 to 126;
- Consolidated Statement of Recognised Income and Expense – page 127;
- Consolidated Cash Flow Statement – pages 127 to 128; and
- Notes to the Accounts – pages 131 to 191.

PART XV

OPERATING AND FINANCIAL REVIEW RELATING TO THE HBOS GROUP

PART A

Operating and Financial Review

A review of the HBOS Group's financial condition and operating results for the financial years ended 31 December 2008 and 2007 can be found on pages 118 to 161 of the May 2009 Prospectus and is incorporated by reference into this document.

A review of the HBOS Group's financial condition and operating results for the financial years ended 31 December 2007 and 2006 can be found on pages 73 to 116 of the HBOS Rights Issue Prospectus and is incorporated by reference into this document. The results for the years ended 31 December 2007 and 2006 are not directly comparable to the results for the years ended 31 December 2008 and 2007, which are incorporated by reference as stated above, for the reasons stated on pages 119 and 120 of the May 2009 Prospectus under the heading "Overview".

PART B
HBOS Group Selected Statistical and Other Information

A review of selected statistical and other information relating to the HBOS Group for the financial years ended 31 December 2008, 2007 and 2006 can be found on pages 162 to 167 of the May 2009 Prospectus and is incorporated by reference into this document.

Following the Acquisition, the HBOS Group has adopted the Group's risk practices. A review of the risk management practices in effect in HBOS during 2008 can be found on pages 168 to 177 of the May 2009 Prospectus and is incorporated by reference into this document.

PART XVI

CAPITAL RESOURCES

PART A

Lloyds Banking Group

1 Capitalisation and Indebtedness

The tables set out in Part XV (“Capital Resources – Part A – Lloyds Banking Group”) on pages 143-144 of the Rights Issue Prospectus, show the unaudited capitalisation of the Group (as at 30 June 2009) and the financial indebtedness of the Group as at 31 August 2009, which are incorporated by reference into this document.

2 Cash Flow Analysis

The cash flow analysis of the Group for (i) the years ended 31 December 2008 and 2007 is set out on pages 101 and 177 to 179 of the Annual Report; (ii) the year ended 31 December 2006 is set out on pages 81 and 143 to 145 of the Group’s Annual Report and Accounts for the year ended 31 December 2007; and (iii) the six months ended 30 June 2009 is set out on page 92 of the Interim Statutory Results, such pages being incorporated by reference into this document.

PART B
HBOS Group

Cash Flow Analysis

The cash flow analysis of the HBOS Group for the years ended 31 December 2008, 2007 and 2006 can be found on page 180 of the May 2009 Prospectus and is incorporated by reference into this document.

PART C

Capital Resources and Liquidity

Information regarding the Group's capital resources and liquidity is contained in Part XV ("Capital Resources – Part C – Capital Resources and Liquidity") on pages 148-152 of the Rights Issue Prospectus, such pages being incorporated by reference into this document.

PART XVII

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE GROUP AS AT 30 JUNE 2009

The unaudited pro forma net assets statement of the Group as at 30 June 2009, the notes thereto and auditors report thereon are set out in Section A of Part XVI ("Unaudited Pro Forma Net Assets Statement of the Group as at 30 June 2009") on pages 153-154 of the Rights Issue Prospectus, and are incorporated by reference into this document.

PART XVIII

LOSS FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

A loss forecast of the Group for the year ending 31 December 2009 is set out in Section A of Part XVII (“Loss Forecast for the Year Ending 31 December 2009”) on page 157 of the Rights Issue Prospectus, and are incorporated by reference into this document.

PART XIX

TRANSFER RESTRICTIONS

The ECNs have not been and will not be registered under the Securities Act, and the ECNs are being offered and will be issued only to (i) “qualified institutional buyers”, as that term is defined in Rule 144A, in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act for transactions by an issuer not involving a public offering or to (ii) persons other than “U.S. persons”, as that term is defined in Rule 902 under the Securities Act, in offshore transactions in reliance upon Regulation S. The ECNs are not, and will not be, eligible for resale pursuant to Rule 144A.

ECNs Issued in the United States

Each Holder of Existing Securities that is in the United States or is a U.S. person that submits a Letter of Transmittal, or transmits an agent’s message, or a Clearing System Exchange Instruction, will represent, warrant and agree or be deemed to represent, warrant and agree, as the case may be, to Lloyds Banking Group and the Dealer Managers as follows:

- (1) it acknowledges that it is acquiring the ECNs for its own account (or for accounts as to which it exercises sole investment discretion and has authority to make, and does make, the statements contained in this letter) and not with a view to any distribution of the ECNs, subject, nevertheless to the understanding that the disposition of its property will at all times be and remain within its control. It acknowledges that it and any such account are qualified institutional buyers as defined in Rule 144A under the Securities Act and are aware, and each beneficial owner of such ECNs has been advised, that the issuance of such ECNs to it is being made in a transaction exempt from registration under the Securities Act;
- (2) it understands and agrees on its own behalf and on behalf of any accounts for which it is acting that the ECNs are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and the ECNs have not been and will not be registered under the Securities Act;
- (3) it understands that the ECNs will be “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and it agrees that for so long as such securities are “restricted securities” (as so defined), it will not reoffer, resell, pledge or otherwise transfer the ECNs, except (a) to another qualified institutional buyer in a transaction that does not require registration under the Securities Act (it recognises that the ECNs are not eligible for resale pursuant to Rule 144A) or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act (which for the avoidance of doubt, includes a sale over the London Stock Exchange), in each case in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. It understands and acknowledges that the Company shall have the right to force the sale or transfer of any ECNs other than in compliance with the foregoing restrictions on transfer;
- (4) as long as the underlying ordinary shares of Lloyds Banking Group are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it agrees that they may not be deposited into any unrestricted depository facility established or maintained by any depository bank, including the current American Depositary Receipt (“ADR”) facility maintained by The Bank of New York Mellon, as depository for Lloyds Banking Group’s ADR facility;
- (5) it understands that the ECNs will be in global registered form only and will settle through the facilities of Euroclear and Clearstream, Luxembourg, but not through the facilities of The Depository Trust Company and that no definitive certificates are expected to be made available. The Restricted Global Certificate, and any definitive certificates made available in the limited circumstances in which definitive certificates can be made available, will bear a legend substantially to the following effect:

“THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR TO ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT DOES NOT

REQUIRE REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION.”

- (6) it acknowledges that (a) neither the ECN Issuers, the Exchange Agents, the Dealer Managers nor any person acting on behalf of any of the foregoing has made any statement, representation, or warranty, express or implied, to it with respect to the ECN Issuers or the offer or sale of any ECNs, other than the information the ECN Issuers have included in this Exchange Offer Memorandum, and (b) any information it desires concerning the ECN Issuers and the ECNs or any other matter relevant to its decision to purchase the ECNs (including a copy of this Exchange Offer Memorandum) is or has been made available to it;
- (7) it (a) is able to act on its own behalf in the transactions contemplated by this Exchange Offer Memorandum, (b) has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the ECNs and (c) is, and any accounts for which it is acting are, able to bear the economic risk, and sustain complete loss, of such investment in the ECNs;
- (8) all holders of ECNs are required to notify transferees of the restrictions on transfer and other limitations and requirements of holding an interest in the ECNs. It hereby agrees to notify any transferee to whom it subsequently reoffers, resells, pledges or otherwise transfers the ECNs of the restrictions on transfer and other limitations and requirements of holding an interest in the ECNs, including those set forth in paragraphs 3 and 4 above and this paragraph 8, any such restrictions on transfer and resale contained in any Clearing System notice or instruction, and the transferee will be bound by such restrictions and requirements and will notify any subsequent transferees of such restrictions;
- (9) it understands and acknowledges that the foregoing representations, warranties, agreements and acknowledgements are requirements in connection with United States and other securities laws and that the ECN Issuers, its affiliates, the Dealer Managers and their affiliates, and others are entitled to rely on the truth and accuracy of the representations, warranties, agreements and acknowledgements contained herein. It agrees that if any of the representations, warranties, agreements and acknowledgements made herein and are no longer accurate, it shall promptly notify the ECN Issuers and the Dealer Managers; and
- (10) it has received, reviewed, acknowledges, accepts and agrees to the terms of the Exchange Offer Memorandum (and, in the case of Existing Securities held in DTC, the Letter of Transmittal) and it acknowledges, accepts and agrees that the Exchange Offer Memorandum and the Letter of Transmittal are confidential and may not be forwarded or distributed to any person other than an Eligible Holder and may not be reproduced in any manner whatsoever.

ECNs Issued Pursuant to Regulation S

Each holder of Existing Securities that is outside the United States and submits a Clearing System Exchange Instruction, a Letter of Transmittal or an agent's message, as the case may be, and each subsequent purchaser of ECNs pursuant to Regulation S in resales prior to the expiration of the distribution compliance period will be deemed to represent, warrant and agree as follows:

- (1) It is, or at the time ECNs are issued will be, the beneficial owner of such ECNs and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the ECN Issuers or a person acting on behalf of such an affiliate.
- (2) It understands that the ECNs have not been and will not be registered under the Securities Act and, prior to the expiration of the 40-day distribution compliance period, it will not offer, sell, pledge or otherwise transfer such ECNs except (a) to a qualified institutional buyer in a transaction that does not require registration under the Securities Act or (b) outside the United States to a non-U.S. person (and not acting for the account or benefit of a U.S. person) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.
- (3) It understands that the ECNs which are issued to persons that are not U.S. persons in an “offshore transaction” within the meaning of Regulation S under the Securities Act will be evidenced by an Unrestricted Global Certificate. Prior to the expiration of the 40-day distribution compliance period, before any interest in an Unrestricted Global Certificate may be, may be offered, sold, pledged or otherwise transferred to a person who takes delivery in

the form of an interest in a Restricted Global Certificate, it will be required to provide a transfer agent with a written certification (in the form provided in the ECN Agency Agreement) as to compliance with applicable securities laws.

- (4) It acknowledges that the relevant ECN Issuer, the ECN Registrar, the Dealer Managers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements, including any acknowledgements, representations and agreements contained in any Exchange Instruction, and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of ECNs, or its submission of a Clearing System Exchange Instruction, is no longer accurate, it shall promptly notify the relevant ECN Issuer and the Dealer Managers. If it is acquiring any ECNs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

PART XX

CLEARING AND SETTLEMENT

Book-Entry Procedures for the Global Certificates

Investors may hold their interests in the Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders as Direct Participants or indirectly as Indirect Participants through organisations which are accountholders therein. While the ECNs are represented by one or more Global Certificates, investors will be able to clear and settle their beneficial interests only through Euroclear or Clearstream, Luxembourg and not through The facilities of the Depository Trust Company.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The ECNs which are issued to persons that are not U.S. persons in an “offshore transaction” within the meaning of Regulation S under the Securities Act will be represented by beneficial interests in each of three Unrestricted Global Certificates, one for the series of ECNs to be issued in exchange for the four series of Existing Securities cleared through Euroclear or Clearstream, Luxembourg and Offered to Exchange and one for each of the series of ECNs to be issued in exchange for the two series of Existing Securities cleared through DTC and Offered for Exchange, and each will have an ISIN and a Common Code number and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

The ECNs which are issued in the United States to certain qualified institutional buyers within the meaning of Rule 144A under the Securities Act in a private transaction in reliance on an exemption from the registration requirements of the Securities Act will be represented by beneficial interests in two Restricted Global Certificates, one for each series of Existing Securities cleared through DTC and Offered to Exchange and will have an ISIN and a Common Code number and will be registered in the name of a nominee for, and deposited with, a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a ECN evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the relevant ECN Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The relevant ECN Issuer expects that, upon receipt of any payment in respect of ECNs evidenced by a Global Certificate, the common depository by whom such Global Certificate is held, or nominee in whose name it is registered, will immediately credit the relevant Participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective

beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depository or its nominee. The relevant ECN Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificates held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the relevant ECN Issuer in respect of payments due on the ECNs for so long as the ECNs are evidenced by such Global Certificates, and the obligations of the relevant ECN Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the ECN Issuers or any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Global Certificates

Subject to the rules and procedures of each applicable clearing system, purchases of Global Certificates held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Global Certificates on the clearing system's records. The ownership interest of each actual purchaser of each such Global Certificate will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Global Certificates held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive certificates representing their ownership interests in such Global Certificates, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Global Certificates held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Global Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Unrestricted Global Certificate held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Unrestricted Global Certificate held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Secondary market purchases and sales of book-entry interests in the Restricted Global Certificates held through Euroclear or Clearstream, Luxembourg will be subject to (i) the certification procedures provided in the ECN Agency Agreement and (ii) the transfer restrictions set out in this Exchange Offer Memorandum and will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

PART XXI

TAXATION CONSIDERATIONS

PART A UNITED KINGDOM

The comments below are of a general nature based on current English law and HM Revenue & Customs practice and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their New Securities and may not apply to certain classes of persons such as dealers or certain professional investors. Any holders of New Securities who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

1 UK Withholding Tax

While the ECNs continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest on the ECNs by the ECN Issuers may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange.

In other cases, interest on the ECNs will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.), unless another relief applies.

2 Deeply Discounted Securities

IMPORTANT: NOTICE TO HOLDERS WITHIN THE CHARGE TO INCOME TAX

The ECNs are being issued pursuant to the Exchange Offer. In some cases the consideration received by an ECN Issuer for the issue of ECNs of a particular series may be less than the amount due on their redemption. That could cause such ECNs ("Affected ECNs") to be "deeply discounted securities" within the meaning of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. Any profit made by a person within the charge to income tax (including any individual or trustee resident for tax purposes in the United Kingdom) on a disposal of an Affected ECN (including transfer, redemption or conversion) could be taxed as income. For Holders who acquire their ECNs pursuant to the Exchange Offer, a taxable profit could arise where the amount or value received by the Holder on a disposal or redemption of an ECN exceeds the price paid to acquire the ECN, that is the market value (taken at the time of the Exchange) of the relevant Existing Security exchanged by that Holder for that ECN. Because of the comparison with the price paid to acquire the ECNs it is therefore possible for a charge to arise even if the proceeds of disposal (including redemption) are equal to or lower than the par value of the ECN issued.

3 Information Sharing

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of the ECNs which constitute Deeply Discounted Securities, or receiving such amounts on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

4 EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be

withheld) unless during such period they elect otherwise. The Belgian Council of Ministers has recently announced that measures will be enacted to allow Belgium to switch to the provision of information system (rather than a withholding system) from 1 January 2010. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Investors should note that the European Commission has announced proposals to amend the Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to interest.

5 Stamp Duty and Stamp Duty Reserve Tax

5.1 ECNs

According to HMRC practice, no United Kingdom Stamp Duty or Stamp Duty Reserve Tax (“SDRT”) is payable on the issue or transfer of an ECN or on its redemption.

5.2 ECN Conversion Shares

There should be no stamp duty or SDRT on issue and delivery of the ECN Conversion Shares save as set out below.

Subject to certain exceptions, any transfer on sale of ECN Conversion Shares will generally be liable to stamp duty at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the consideration paid. An unconditional agreement to transfer such shares will generally be liable to SDRT at the rate of 0.5 per cent. of the consideration paid, but such liability will be cancelled if the agreement is completed by a duly-stamped transfer within six years of the agreement having become unconditional.

Transfers of shares within the CREST system for paperless share transfers are liable to SDRT (at a rate of 0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected by CREST.

Where ECN Conversion Shares are (i) transferred to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services (a “Clearance Service”) or (ii) issued or transferred to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts (a “Depositary Receipts System”) stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the consideration payable or, in certain circumstances, the value of the ECN Conversion Shares (rounded up to the nearest £5 in the case of stamp duty). However, the ECJ has found in *C-569/07 HSBC Holdings Plc, Vidacos Nominees Limited v The Commissioners of Her Majesty’s Revenue & Customs* (the “HSBC” case) that the 1.5 per cent. charge is contrary to EU Community law where shares are issued to a Clearance Service, and HMRC has subsequently indicated that it will not levy the charge on shares issued to a Clearance Service within the EU. The reasoning in the HSBC case may apply where shares are issued to a Depositary Receipts System, although this is currently untested in the courts. Any liability for stamp duty or SDRT which does arise will strictly be accountable by the Clearance Service or Depositary Receipts System operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt scheme. Under current UK tax legislation, an unconditional agreement to transfer shares within a Depositary Receipts System, or within a Clearance Service which has not made an election under section 97A of the Finance Act 2006, will not be subject to SDRT. Following the HSBC Case, HMRC have announced that they will determine whether and how to amend the SDRT rules to ensure movements of shares into and within a Clearance Service bear their fair share of tax, whilst ensuring the rules are compatible with EU Community law. The law in this area may therefore be particularly susceptible to change.

No stamp duty or SDRT will arise on the issue or transfer of ECN Conversion Shares into the CREST system provided (i) the shares are not issued or transferred into the CREST account of, or of a nominee for, a Depositary Receipts System or the CREST account of, or of a nominee for, a Clearance Service which has not made an election

under section 97A of the Finance Act 1986, and (ii) in the case of SDRT, the transfer is not for money or money's worth (although see above for the discussion on the impact of the HSBC case in relation of issues of Shares in a Clearance Service or a Depository Receipts System, HMRC's response and political legislative change).

The statements in this Part A are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

PART B

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS EXCHANGE OFFER MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ECN ISSUERS IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ECN ISSUERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

* * * * *

The following is a summary of certain material U.S. federal income tax consequences of the exchange of Existing Securities for ECNs pursuant to the Exchange Offer as well as of the ownership and disposition of ECNs by a U.S. Holder (as defined below). This summary deals only with U.S. Holders that hold Existing Securities and will hold ECNs as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the exchange of Existing Securities for ECNs pursuant to the Exchange Offer, or the ownership or disposition of ECNs by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the issuer of the Existing Securities, the Company or the relevant ECN Issuer, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that hold the Existing Securities or will hold the ECNs as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Existing Securities that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that exchanges Existing Securities or that holds ECNs will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the exchange of Existing Securities and the acquisition, ownership and disposition of ECNs by the partnership.

The Company believes that the ECNs should be characterised as equity of the Company for U.S. federal income tax purposes. The summary assumes that the Company is not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which the Company believes to be the case. However, it is possible that the ECNs could be characterised as equity of the relevant ECN Issuer for U.S. federal income tax purposes, and, in turn, there is a risk that the relevant ECN Issuer is or will be a PFIC. U.S. Holders of ECNs characterised as equity of a PFIC would be subject to adverse U.S. federal income tax consequences. See "Passive Foreign Investment Company Considerations" below. It is also possible that the ECNs could be characterised as debt for U.S. federal income tax purposes. The consequences of this characterisation are described under "Treatment of the ECNs as Debt" below.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions as well as on the income tax treaty between the United

States and the United Kingdom (the “Treaty”), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL HOLDERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF EXCHANGING THEIR EXISTING SECURITIES FOR THE ECNs AND OF OWNING OR DISPOSING OF THE ECNs, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Federal Income Tax Characterisation of the ECNs and Existing Securities

In general, the U.S. federal income tax consequences to a U.S. Holder who exchanges Existing Securities for ECNs will depend on the U.S. federal income tax characterisation of both the ECNs and the Existing Securities. The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities with terms substantially the same as the ECNs or the Existing Securities and no rulings have or will be sought from the Internal Revenue Service (“IRS”) regarding the characterisation of the ECNs or the Existing Securities. Under U.S. federal income tax principles, although the matter is not free from doubt, a strong likelihood exists that the ECNs will be treated as equity of the Company, and that the Existing Securities are equity of the relevant issuers of those securities. However, alternative characterisations may be possible. For example, the IRS could seek to characterise the ECNs as equity of the relevant ECN Issuer, as debt of the Company, or as debt of the relevant ECN Issuer for U.S. federal income tax purposes or could seek to characterize the Existing Securities as debt of the relevant issuers of those securities. U.S. Holders should consult their tax advisers concerning possible alternative characterisations of the ECNs and the Existing Securities for U.S. federal income tax purposes. The Company and, by exchanging an Existing Security for an ECN, each U.S. Holder, agree to treat the ECNs as equity of the Company and the Existing Securities as equity of the relevant issuer of those securities.

U.S. Federal Income Tax Consequences of the Exchange Offer

The exchange of Existing Securities for ECNs pursuant to the Exchange Offer will be a taxable exchange for U.S. federal income tax purposes. U.S. Holders of Existing Securities participating in the Exchange Offer will generally recognise gain or loss on the exchange of Existing Securities for ECNs equal to the difference between (i) the sum of the fair market value of the ECNs received pursuant to the Exchange Offer and the Accrued Interest Payment and (ii) the U.S. Holder’s adjusted tax basis in the Existing Securities, which will generally be equal to the U.S. Holder’s U.S. dollar cost of the Existing Securities. However, there is a possibility that the Accrued Interest Payment might be excluded from the amount realised by the U.S. Holder on the exchange and instead taxed as a distribution paid with respect to shares of the relevant issuers of the Existing Securities.

This gain or loss will be long-term capital gain or loss if the U.S. Holder has owned the Existing Securities for more than one year. However, regardless of a U.S. Holder’s actual holding period, any loss may be long-term capital loss to the extent the U.S. Holder has received a dividend with respect to its Existing Securities that qualified for the reduced rate described below under “Treatment of ECNs as Equity – Payments of Interest”, and exceeds 5 per cent. of the U.S. Holder’s basis in its Existing Securities. Certain non-corporate U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. A U.S. Holder’s ability to deduct capital losses may be limited. Any gain or loss will generally be U.S. source.

A U.S. Holder’s initial basis in its ECNs will be equal to the U.S. dollar value of the ECNs as of the date of exchange. A U.S. Holder’s holding period in the ECNs will begin on the day after the date of the exchange.

If the Existing Securities are treated as debt rather than equity of the relevant ECN Issuer, the treatment of the Exchange Offer may differ. U.S. Holders should consult their tax advisers concerning possible alternative characterisations of the Exchange Offer for U.S. federal income tax purposes.

Treatment of ECNs as Equity

Assuming the ECNs are property treated as equity for U.S. federal income tax purposes, payments on and in respect of the ECNs will be treated as described below.

Payments of Interest

Subject to the PFIC rules discussed below, if the ECNs are treated as equity of the Company, payments of interest will be treated as distributions paid with respect to shares of the Company's stock. Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the ECNs and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any payment of interest by the Company with respect to ECNs will constitute ordinary dividend income.

For taxable years that begin before 2011, dividends paid by the Company will generally be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty, which the Company believes to be the case. A U.S. Holder will be eligible for this reduced rate only if it has held the ECNs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Interest payments by the Company will not be eligible for the reduced rate if the Company is treated as a PFIC in the year the interest payment is made, or was treated as a PFIC in the preceding taxable year. See "Passive Foreign Investment Company Considerations" below. Further, if the ECNs were treated as equity of the relevant ECN Issuer, dividends paid by the relevant ECN Issuer would not be expected to qualify for the special reduced rate, because the ECN Issuers are not expected to qualify for the benefits of the Treaty.

Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to distributions on the ECNs.

Redemption Premium

The ECNs will be considered to be issued with "redemption premium" if the excess of the ECN's stated redemption price at maturity over its issue price is equal to or more than a de minimis amount (0.25 per cent. of the ECN's stated redemption price at maturity multiplied by the number of complete years to its maturity). In this case, the issue price of an ECN will be the fair market value of the ECN, determined as of the Issue Date. A U.S. Holder will be required to include the redemption premium, if any, in income under principles similar to the principles discussed below in "Treatment of ECNs as Debt – Payments of Interest – Original Issue Discount". This discount will be treated as distributions paid with respect to shares of the Company's stock, as discussed above in "Payments of Interest".

Sale or other Disposition

Subject to the PFIC rules discussed below, upon a sale or other disposition of ECNs, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the ECNs. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the ECNs exceeds one year. However, regardless of a U.S. Holder's actual holding period, any loss may be long-term capital loss to the extent the U.S. Holder receives a dividend that qualifies for the reduced rate described above under "Payments of Interest – General", and exceeds 5 per cent. of the U.S. Holder's basis in its ECNs. Any gain or loss will generally be U.S. source. See "Passive Foreign Investment Company Considerations" below for a discussion of more adverse rules that will apply to a sale or other disposition of ECNs if the Company is or becomes a PFIC for U.S. federal income tax purposes.

Conversion

A U.S. Holder's conversion of ECNs into Ordinary Shares as provided in the Conditions should generally not be a taxable event for U.S. federal income tax purposes, except to the extent attributable to cash received in lieu of a fractional Ordinary Share. A U.S. Holder's basis in

Ordinary Shares received upon conversion will generally be the same as the U.S. Holder's basis (exclusive of any tax basis allocable to a fractional Ordinary Share) in the ECNs converted.

Payments of Accrued Conversion Interest will be generally treated as a distribution paid with respect to the Company's stock. See "Treatment of ECNs as Equity – Payments of Interest".

Passive Foreign Investment Company Considerations

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company believes that it will not be a PFIC for the current taxable year and does not expect to become a PFIC in any future taxable year. However, a company's possible status as a PFIC must be determined annually (at the end of the taxable year) and may be subject to change.

Further, if the ECNs were treated as equity of the relevant ECN Issuer, the ECNs would be subject to the PFIC rules if the relevant issuer were treated as a PFIC. Whether an ECN Issuer will be treated as a PFIC depends in large part on whether the interest and dividend income that it recognises from other subsidiaries of the Group is properly allocable to income of those subsidiaries that is not passive income. Although it is not free from doubt, interest income that the ECN Issuers recognise from other subsidiaries of the Group would likely be allocated first to the passive income of those subsidiaries, and on this basis there is a strong likelihood that the ECN Issuers would be treated as PFICs. However, the ECN Issuers have not and do not intend to determine whether the income they receive will meet these requirements. Accordingly, it is possible that an ECN Issuer may be a PFIC in any year. If the ECNs were to be treated as equity of the relevant ECN Issuer, and the ECN Issuer were treated as a PFIC in any year, U.S. Holders of the ECNs issued by that ECN Issuer would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of ECNs at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, distributions paid by the relevant ECN Issuer would not be eligible for the special reduced rate of tax described above under "Payments of Interest – General", and any conversion of ECNs into Ordinary Shares as provided in the Conditions may result in a taxable exchange for U.S. federal income tax purposes the gain on which would be subject to the special additions to tax imposed by the PFIC regime. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Treatment of ECNs as Debt

While a strong likelihood exists that the ECNs will be treated as equity for U.S. federal income tax purposes, and the Company will treat the ECNs as equity, as described above in "U.S. Federal Income Tax Characterisation of the ECNs and Existing Securities", it is possible that the IRS could seek to characterise the ECNs as debt for U.S. federal income tax purposes. If the ECNs were treated as debt of the Company or of the relevant ECN Issuer for U.S. federal income tax purposes, payments on and in respect of the ECNs would be treated in the manner described below.

Payments of Interest

General. Interest on an ECN will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the ECN Issuer on the ECNs and original issue discount ("OID"), if any, accrued with respect to the ECNs (as described below under "Original Issue Discount") constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the ECNs.

Original Issue Discount. The ECNs will be considered to be issued with OID if the excess of the ECN's stated redemption price at maturity over its issue price is equal to or more than a de minimis amount (0.25 per cent. of the ECN's stated redemption price at maturity multiplied by the number of complete years to its maturity). In this case, the issue price of an ECN will be the fair market value of the ECN, determined as of the Issue Date. If the ECNs are treated as issued with OID, a U.S. Holder must include a portion of the OID in gross income as interest in each taxable

year or portion thereof in which the U.S. Holder holds the ECNs even if the U.S. Holder has not received a cash payment in respect of the OID.

U.S. Holders of ECNs must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the ECNs. The amount of OID includible in income by a U.S. Holder of an ECN is the sum of the daily portions of OID with respect to the ECN for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the ECN ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to an ECN may be of any length selected by the U.S. Holder and may vary in length over the term of the ECN as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the ECN occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the ECN's adjusted issue price at the beginning of the accrual period and the ECN's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the ECN allocable to the accrual period. The "adjusted issue price" of an ECN at the beginning of any accrual period is the issue price of the ECN increased by the amount of accrued OID for each prior accrual period.

Sale and Retirement of the ECNs

A U.S. Holder will generally recognise gain or loss on the sale or retirement of an ECN equal to the difference between the amount realised on the sale or retirement and the tax basis of the ECN. A U.S. Holder's tax basis in an ECN will be equal to the U.S. dollar value of the ECNs as of the date of exchange increased by the amount of any OID included in the U.S. Holder's income with respect to the ECN and reduced by the amount of any principal paid on the ECN. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale or retirement of an ECN will be capital gain or loss and will be long-term capital gain or loss if the ECN was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of an ECN generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of ECNs.

Conversion

Debt of the Company. If the ECNs were treated as debt instruments issued by the Company, a U.S. Holder's conversion of ECNs into Ordinary Shares as provided in the Conditions generally will not be a taxable event (except to the extent attributable to accrued but unpaid interest or to cash received in lieu of a fractional Ordinary Share) for U.S. federal income tax purposes. A U.S. Holder's basis in Ordinary Shares received upon conversion will generally be the same as the U.S. Holder's basis (exclusive of any tax basis allocable to a fractional Ordinary Share) in the ECNs converted.

Payments of Accrued Conversion Interest will generally be treated as ordinary income. See "—Treatment of ECNs as Debt—Payments of Interest".

Debt of an ECN Issuer. Although not entirely free from doubt, if the ECNs were treated as debt of the relevant ECN Issuer, the conversion of ECNs into Ordinary Shares pursuant to the Conditions should be treated as a taxable sale or exchange of the ECNs. A U.S. Holder will generally recognise gain or loss on this equal to the difference between the fair market value of Ordinary Shares and other consideration received in exchange for the ECNs and its tax basis in the ECNs. See "Treatment of ECNs as Debt—Sale and Retirement of the ECNs".

Payments of Accrued Conversion Interest will generally be treated as ordinary income. See "—Treatment of ECNs as Debt—Payments of Interest".

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of ECNs by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt

status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

PART C OTHER JURISDICTIONS

In view of the number of different jurisdictions where tax laws may apply to a Holder, save as set out in Parts A and B of this Part XXI, this Exchange Offer Memorandum does not discuss the tax consequences for Holders arising from the exchange of Existing Securities in the Exchange Offer for ECNs. Holders are urged to consult their own professional advisers regarding these possible tax consequences under the laws of the jurisdictions that apply to them or to the exchange of their Existing Securities and the receipt pursuant to the Exchange Offer of ECNs and the Accrued Interest Payment. Holders are liable for their own taxes and have no recourse to the ECN Issuers, Lloyds Banking Group, the Dealer Managers or the Exchange Agents with respect to taxes arising in connection with the Exchange Offer.

PART XXII

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto, including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, “ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the plan. The prudence of a particular investment will be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed in “Risk Factors” and the fact that in the future there may be no market in which the fiduciary will be able to sell or otherwise dispose of the ECNs.

In addition, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, a sale or exchange of property or an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

While it cannot be free from doubt, for the reasons discussed in “Taxation Considerations: United States”, the ECNs will likely be considered to have substantial equity features under the Plan Assets Regulation and, as a result, could be treated as equity interests in the Group for purposes of ERISA.

We, directly or through our affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the ECNs are acquired by a Plan with respect to which the Group or an affiliate is a party in interest or a disqualified person, unless the ECNs are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire ECNs and the circumstances under which that decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (“PTCE”) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 95-60 (relating to investments by insurance company general accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide a limited exemption for the purchase and sale of securities and related lending transactions, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more than “adequate consideration” (within the meaning of ERISA Section 408(b)(17) and Section 4975(f)(10) of the Code) in connection with the transaction (the “service provider exemption”). There can be no assurance that any of these exemptions or any other exemption will be available with respect to the Exchange Offer or any other transaction involving the ECNs.

BY ITS OFFER TO EXCHANGE EXISTING SECURITIES IN THE EXCHANGE OFFER, AND ITS ACQUISITION AND HOLDING OF ECNs, EACH HOLDER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT (A) EITHER (i) IT IS NOT AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO TITLE I OF ERISA, OR A PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR A

GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH PLAN OR (ii) ITS ACQUISITION AND HOLDING OF ECNs WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR ANY SUBSTANTIALLY SIMILAR PROVISIONS OF ANY FEDERAL, STATE OR LOCAL LAW AND (B) NEITHER THE GROUP NOR ANY OF ITS AFFILIATES IS A "FIDUCIARY" (WITHIN THE MEANING OF ERISA SECTION 3(21) OR, WITH RESPECT TO A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, ANY SIMILAR LAWS) WITH RESPECT TO THE PURCHASER OR HOLDER IN CONNECTION WITH SUCH PERSON'S ACQUISITION OR HOLDING OF THE ECNs, OR AS A RESULT OF ANY EXERCISE BY THE GROUP OR ANY OF ITS AFFILIATES OF ANY RIGHTS IN CONNECTION WITH THE ECNs, AND NO ADVICE PROVIDED BY THE GROUP OR ANY OF ITS AFFILIATES HAS FORMED A PRIMARY BASIS FOR ANY INVESTMENT DECISION BY OR ON BEHALF OF SUCH HOLDER IN CONNECTION WITH THE ECNs AND THE TRANSACTIONS CONTEMPLATED WITH RESPECT TO THE ECNs.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before acquiring ECNs.

Any Plan fiduciary that proposes to cause a Plan to acquire ECNs should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA or the Code.

The transfer of ECNs to a Plan is in no respect a representation by the Group or any of its Affiliates that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

PART XXIII

DIRECTORS, CORPORATE GOVERNANCE AND EMPLOYEES

Information regarding the Directors, corporate governance and employees of the Group is set out in Part XIX (“Directors, Corporate Governance and Employees”) of the Rights Issue Prospectus and is incorporated by reference herein, save for the following items:

- Section 1 (“Persons Responsible”); and
- Section 8 (“Conflicts of Interest”),

in each case, of Part XIX of the Rights Issue Prospectus.

Directors

Set out below is a list of the Directors of the Company and Lloyds TSB Bank. Further information concerning the Directors, including their business experience and principal business activities outside of the Group, is set out in Part XIX (“Directors, Corporate Governance and Employees”) of the Rights Issue Prospectus and is incorporated by reference herein.

Sir Winfried Bischoff	Chairman
Lord Leitch ⁽¹⁾	Deputy Chairman
J Eric Daniels	Group Chief Executive
Archie G Kane	Group Executive Director, Insurance
G Truett Tate	Group Executive Director, Wholesale
Tim J W Tookey	Group Finance Director
Helen A Weir CBE	Group Executive Director, Retail
Dr. Wolfgang C G Berndt	Independent Non-Executive Director
Sir Julian Horn-Smith	Independent Non-Executive Director
Carolyn J McCall OBE ⁽²⁾	Independent Non-Executive Director
T Timothy Ryan, Jr	Independent Non-Executive Director
Martin A Scicluna	Independent Non-Executive Director
Anthony Watson CBE	Independent Non-Executive Director

Notes:

(1) Senior Independent Director.

(2) Carolyn McCall will stand down from the Board at the end of 2009.

The business address of the Directors is 25 Gresham Street, London EC2V 7HN.

In respect of any Director, there are no actual or potential conflicts of interest between any duties they have to the Company or Lloyds TSB Bank and the private interests and/or other duties they may also have. Save as disclosed in section 3 (“Interests of the Directors”) of Part XIX (“Directors, Corporate Governance and Employees”) of the Rights Issue Prospectus (as incorporated by reference herein) which sets out interests of the Directors in the share capital of Lloyds Banking Group, there are no interests, including conflicting ones, that are material to the Exchange Offer.

No Director has, or had during the year ended 31 December 2008, a material interest in any significant contract with Lloyds Banking Group, Lloyds TSB Bank or any of their subsidiaries.

None of the Directors was selected to be a director of Lloyds Banking Group or Lloyds TSB Bank pursuant to any arrangement or understanding with any major shareholder, customer, supplier or other person having a business connection with the Group.

No restrictions have been agreed by any Director on the disposal within a certain period of time of his or her holding in Lloyds Banking Group securities.

There are no family relationships between any of the Directors.

PART XXIV

ADDITIONAL INFORMATION

Certain additional information regarding, amongst others, share capital, material contracts, and major shareholders of the Company, is set out in Part XX (“Additional Information”) of the Rights Issue Prospectus and is incorporated by reference herein, save for the following items:

- Section 1 (“The Company”);
- Section 11.1 (“Litigation Proceedings”);
- Section 13 (“Costs of the Rights Issue”);
- Section 15 (“Working Capital”);
- Section 16 (“Significant Change”);
- Section 17 (“Consents”); and
- Section 19 (“Documents Available for Inspection”),

in each case, of Part XX (“Additional Information”) of the Rights Issue Prospectus.

PART XXV

GENERAL INFORMATION

- 1 Lloyds Banking Group was incorporated and registered in Scotland on 21 October 1985 with registered number 95000 as a public company limited by shares under the name TSB Group Public Limited Company. On 28 December 1995, it changed its name to Lloyds TSB Group plc. On 16 January 2009, the Company changed its name to its present name. The principal legislation under which the Company operates, and pursuant to which the New Shares will be created, is the Companies Act and regulations made thereunder. Lloyds Banking Group 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.
- 2 Lloyds TSB Bank was incorporated on 20 April 1865 with registered number 2065. Lloyds TSB Bank's registered office is 25 Gresham Street, London EC2V 7HN, England. The telephone number of Lloyds TSB Bank is Tel: +44 (0)20 7626 1500. Lloyds TSB Bank is a wholly owned subsidiary of Lloyds Banking Group.
- 3 The listing of each series of the ECNs on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the ECNs on the Official List and admission of the ECNs to trading on the London Stock Exchange's Regulated Market will be granted on or around the Settlement Date, subject only to the issue of the ECNs. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- 4 The making of the Exchange Offer by LBG Capital No.1 and the issue of each series of the ECNs by LBG Capital No.1 or LBG Capital No.2 (as applicable) has been duly authorised by resolutions of the Board of Directors of LBG Capital No.1, LBG Capital No.2 and of Lloyds Banking Group passed on 2 November 2009.
- 5 The aggregate estimated costs payable by the Company attributable to the Proposals are approximately £500 million. As there may be no new proceeds received by the Company pursuant to the Exchange Offers, the aggregate expenses of the Proposals will be paid out of the gross proceeds of the Rights Issue. Accordingly, net of expenses, the Company will receive approximately £13 billion in total from the proceeds of the Rights Issue, before payment of the GAPS Payment.
- 6 The ECNs have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code. The International Securities Identification Number (ISIN) and the Common Code for each series of ECNs are specified in the relevant Pricing Schedule.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.
- 7 Save as disclosed in the section entitled "Litigation Proceedings" on pages 224 and 225 of the Rights Issue Prospectus, as incorporated by reference into this document, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Company is aware) during the year preceding the date of this document, which may have or have had in the recent past, significant effects on the financial position or profitability of the Company and/or the Group.
- 8 Save as disclosed in the section entitled "Litigation Proceedings" on pages 224 and 225 of the Rights Issue Prospectus, as incorporated by reference into this document, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which Lloyds TSB Bank is aware) during the year preceding the date of this document, which may have or have had in the recent past, significant effects on the financial position or profitability of Lloyds TSB Bank and/or Lloyds TSB Bank Group.

- 9 There are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which LBG Capital No.1 is aware) during the 12 months preceding the date of this document, which may have or have had in the recent past, significant effects on the financial position or profitability of LBG Capital No.1 and/or the Group.
- 10 There are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which LBG Capital No.2 is aware) during the 12 months preceding the date of this document, which may have or have had in the recent past, significant effects on the financial position or profitability of LBG Capital No.2 and/or the Group.
- 11 There has been no significant change in the financial or trading position of the Group since 30 June 2009, the date to which the Group's last published financial information was prepared.
- 12 Save as disclosed in Risk Factor 1.3 in the Rights Issue Prospectus (as incorporated by reference herein) relating to the European State Aid review of the aid given by HM Treasury to the Group, there has been no material adverse change in the prospects of the Group since 31 December 2008.
- 13 There has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 30 June 2009, the date to which Lloyds Banking Group's last published financial information was prepared, and, save as disclosed in Risk Factor 1.3 in the Rights Issue Prospectus (as incorporated by reference herein) relating to the European State Aid review of the aid given by HM Treasury to the Group, there has been no material adverse change in the prospects of Lloyds TSB Bank Group since 31 December 2008.
- 14 There has been no change in the financial or trading position and no material adverse change in the prospects of LBG Capital No.1 since its incorporation on 15 October 2009.
- 15 There has been no change in the financial or trading position and no material adverse change in the prospects of LBG Capital No.2 since its incorporation on 15 October 2009.
- 16 The Company is of the opinion that, after taking into account existing available bank and other facilities, the Exchange Offers and the net proceeds of the Rights Issue, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.
- 17 The auditors and reporting accountants of Lloyds Banking Group and Lloyds TSB Bank are PricewaterhouseCoopers LLP, which is a member firm of the Institute of Chartered Accountants of England and Wales, and whose address is Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH.

18 Documents Available for Inspection

Copies of the following documents:

- (a) the Articles of Association of LBG Capital No.1 or LBG Capital No.2, Lloyds TSB Bank and Lloyds Banking Group;
- (b) the annual reports and audited consolidated accounts of the Group for the financial years ended 31 December 2006, 2007 and 2008 (and for this year only, on Form 20-F);
- (c) the annual reports and audited accounts of Lloyds TSB Bank for the financial years ended 31 December 2007 and 2008;
- (d) the annual reports and audited consolidated accounts of the HBOS Group for the years ended 31 December 2006, 2007 and 2008;
- (e) the Interim Statutory Results/Interim Results New Release;
- (f) drafts subject to completion of the ECN Agency Agreement;
- (g) drafts subject to completion of the ECN Trust Deed; and
- (h) drafts subject to completion of the ECN Deed Poll,

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until admission of the ECNs at:

- (a) the registered office of Lloyds Banking Group, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH; and
- (b) the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

PART XXVI

DOCUMENTATION INCORPORATED BY REFERENCE

The Annual Report and Accounts of Lloyds TSB Bank for each of the financial years ended 31 December 2008 and 2007 are available for inspection in accordance with section 18 of Part XXV (“General Information”) of this document and contain information which is relevant to the Exchange Offer. These documents are also available on Lloyds Banking Group’s website at www.lloydsbankinggroup.com/investors.asp.

The Annual Report and Accounts of the Group for each of the financial years ended 31 December 2008, 2007 and 2006 are available for inspection in accordance with section 18 of Part XXV (“General Information”) of this document and contain information which is relevant to the Exchange Offer. These documents are also available on Lloyds Banking Group’s website at www.lloydsbankinggroup.com/investors.asp.

The Annual Report and Accounts of the HBOS Group for each of the financial years ended 31 December 2008, 2007 and 2006 are available for inspection in accordance with section 18 of Part XXV (“General Information”) of this document and contain information which is relevant to the Exchange Offer. These documents are also available on the Group’s website at www.lloydsbankinggroup.com/investors.asp.

The table below sets out the various sections of such documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure Existing Security Holders and others are aware of all information which is necessary to enable Existing Security Holders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of Lloyds TSB Bank and Lloyds Banking Group.

1 Company Information Incorporated by Reference

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
Annual Report and Accounts 2006	Independent Auditors’ Report	62
Annual Report and Accounts 2006	Consolidated Income Statement	63
Annual Report and Accounts 2006	Consolidated Balance Sheet	64-65
Annual Report and Accounts 2006	Consolidated Statement of Changes in Equity	66
Annual Report and Accounts 2006	Consolidated Cash Flow Statement	67
Annual Report and Accounts 2006	Notes to the Group Accounts	68-120 ⁽¹⁾
Annual Report and Accounts 2006	Note 45 (“Related Party Transactions”)	111
Annual Report and Accounts 2007	Independent Auditors’ Report	76
Annual Report and Accounts 2007	Consolidated Income Statement	77
Annual Report and Accounts 2007	Consolidated Balance Sheet	78-79
Annual Report and Accounts 2007	Consolidated Statement of Changes in Equity	80
Annual Report and Accounts 2007	Consolidated Cash Flow Statement	81
Annual Report and Accounts 2007	Notes to the Group Accounts	82-147 ⁽¹⁾
Annual Report and Accounts 2007	Note 45 (“Related Party Transactions”)	131-132
Annual Report and Accounts 2008	Independent Auditors’ Report	96
Annual Report and Accounts 2008	Consolidated Income Statement	97
Annual Report and Accounts 2008	Consolidated Balance Sheet	98-99
Annual Report and Accounts 2008	Consolidated Statement of Changes in Equity	100
Annual Report and Accounts 2008	Consolidated Cash Flow Statement	101
Annual Report and Accounts 2008	Notes to the Group Accounts	102-181
Annual Report and Accounts 2008	Note 47 (“Related Party Transactions”)	161-162
Annual Report and Accounts 2008	Directors’ Remuneration Report	74-95
Annual Report and Accounts 2008	Accounting Policies	102-110
Annual Report and Accounts 2008	Critical Accounting Estimates and Judgements	111-113
Annual Report on Form 20-F, for the year ending 31 December 2008	Business Overview	2

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
Annual Report on Form 20-F, for the year ending 31 December 2008	Business Review	6-13
Annual Report on Form 20-F, for the year ending 31 December 2008	Financial Soundness	65-71
Annual Report on Form 20-F, for the year ending 31 December 2008	Operating and Financial Review and Prospects	14-79
Annual Report on Form 20-F, for the year ending 31 December 2008	Compensation	83-100
Annual Report on Form 20-F, for the year ending 31 December 2008	Consolidated Income Statement	F-3
Annual Report on Form 20-F, for the year ending 31 December 2008	Consolidated Balance Sheet	F-4-F-5
Annual Report on Form 20-F, for the year ending 31 December 2008	Consolidated Statement of Changes in Equity	F-6
Annual Report on Form 20-F, for the year ending 31 December 2008	Consolidated Cash Flow Statement	F-7
Annual Report on Form 20-F, for the year ending 31 December 2008	Notes to the Consolidated Financial Statements	F-8-F-91
Annual Report on Form 20-F, for the year ending 31 December 2008	Report of the Independent Registered Public Accounting Firm	F-2
Interim Results News Release	Condensed Interim Financial Statements	87-92
Interim Results News Release	Statutory notes	93-115
Interim Results News Release	Independent review report	117-118
2008 Interim Results	Condensed Interim Financial Statements	30-45
2008 Interim Results	Independent review report	47
2008 Circular	Section 9.1.3 of Part XIII ("Additional Information")	256-257
2008 Circular	Section 9.1.4 of Part XIII ("Additional Information")	257-258
2008 Circular	Section 9.2.4 of Part XIII ("Additional Information")	259-261
2008 Circular	Section 9.2.5 of Part XIII ("Additional Information")	261-262
2008 Prospectus	Section 2 of Part B of Part VI ("Information on the Acquisition")	62-68
May 2009 Prospectus	whole document	whole document
Lloyds Banking Group's Articles of Association		whole document
Regulatory News Service Announcement dated 18 September 2009	Announcement made by Lloyds Banking Group on 18 September 2009 regarding the Group's proposed participation in the GAPS	whole document
Regulatory News Service announcement dated 18 September 2009	Announcement made by Lloyds Banking Group on 7 March 2009 announcing the participation by the Group in the Government Asset Protection Scheme, a pre-emptive open offer and the redemption of the HMT Preference Shares.	whole document
Rights Issue Prospectus	Part II ("Risk Factors – Risks Relating to the Group")	11-30
	Part II ("Risk Factors – Risks Relating to the Proposals")	30-31
	Part II ("Risk Factors – Risks Relating to the Rights Issue and to investment in the Ordinary Shares")	32-33
	Part IX ("Information on the Group")	104-111
	Part X ("Regulation and Supervision in the United Kingdom")	112-123
	Part XII Part B – ("Operating and Financial Review Relating to Lloyds Banking Group for the six months ended 30 June 2009 and 2008")	128-139
	Part XV ("Capital Resources"), Part A ("Lloyds Banking Group")	143-144
	Part XV ("Capital Resources") Part C ("Capital Resources and Liquidity")	146-152
	Section A of Part XVI ("Unaudited Pro Forma Net Assets	153-154

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
	Statement of Group as at 30 June 2009")	
	Section A of Part XVII ("Loss forecast for the year ending 31 December 2009")	157
	Part XX ("Additional Information")	184-227 save as specified on page 123
	Part XXII ("Definitions") ⁽²⁾	230-240

Notes:

- (1) Including such other information in the relevant annual report and accounts as is cross-referenced therein.
- (2) Part XXII ("Definitions") of the Rights Issue Prospectus shall be incorporated by reference herein only (i) to the extent that the relevant defined terms set out in such section are used within the other sections of the Rights Issue Prospectus listed in this Part XXVII and which are incorporated by reference into this document and (ii) as otherwise expressly referred to herein.

2 Lloyds TSB Bank Information Incorporated by Reference

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
Annual Report and Accounts 2006	Independent Auditors' Report	6
Annual Report and Accounts 2006	Consolidated Income Statement	7
Annual Report and Accounts 2006	Consolidated Balance Sheet	8-9
Annual Report and Accounts 2006	Consolidated Statement of Changes in Equity	10
Annual Report and Accounts 2006	Consolidated Cash Flow Statement	12
Annual Report and Accounts 2006	Notes to the Accounts	13-73
Annual Report and Accounts 2007	Independent Auditors' Report	8-9
Annual Report and Accounts 2007	Consolidated Income Statement	10
Annual Report and Accounts 2007	Consolidated Balance Sheets	11-12
Annual Report and Accounts 2007	Consolidated Statement of Changes in Equity	13
Annual Report and Accounts 2007	Consolidated Cash Flow Statement	15
Annual Report and Accounts 2007	Notes to the Accounts	16-100
Annual Report and Accounts 2007	Note 46 ("Related Party Transactions")	67-69
Annual Report and Accounts 2008	Independent Auditors' Report	9-10
Annual Report and Accounts 2008	Consolidated Income Statement	11
Annual Report and Accounts 2008	Consolidated Balance Sheets	12-13
Annual Report and Accounts 2008	Consolidated Statement of Changes in Equity	14
Annual Report and Accounts 2008	Consolidated Cash Flow Statements	16
Annual Report and Accounts 2008	Notes to the Accounts	17-107
Annual Report and Accounts 2008	Note 48 ("Related Party Transactions")	69-107
Annual Report and Accounts 2008	Directors' Remuneration Report	69-71
Annual Report and Accounts 2008	Accounting Policies	17-24
Annual Report and Accounts 2008	Critical Accounting Estimates and Judgements	24-27
Interim Management Report	Consolidated Income Statement	4
Interim Management Report	Statement of Comprehensive Income	5
Interim Management Report	Consolidated Balance Sheet	6-7
Interim Management Report	Consolidated Statement of Changes in Equity	8
Interim Management Report	Consolidated Cash Flow Statement	9
Interim Management Report	Notes to the Group Accounts	10-25
Interim Management Report	Independent Review Report	27-28
Lloyds TSB Bank's Articles of Association		whole document

3 HBOS Information Incorporated by Reference

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
Annual Report and Accounts 2006	Independent Auditors' Report	123
Annual Report and Accounts 2006	Consolidated Income Statement	124
Annual Report and Accounts 2006	Consolidated Balance Sheet	125-126
Annual Report and Accounts 2006	Consolidated Statement of Recognised Income and Expense	127
Annual Report and Accounts 2006	Consolidated Cash Flow Statement	127-128
Annual Report and Accounts 2006	Notes to the Accounts	131-191 ⁽¹⁾
Annual Report and Accounts 2006	Note 47 ("Related Party Transactions") and 48 ("Transactions with Key Management Personnel")	187-188
Annual Report and Accounts 2007	Independent Auditors' Report	152
Annual Report and Accounts 2007	Consolidated Income Statement	153
Annual Report and Accounts 2007	Consolidated Balance Sheet	154-155
Annual Report and Accounts 2007	Consolidated Statement of Recognised Income and Expenses	156
Annual Report and Accounts 2007	Consolidated Cash Flow Statement	156-157
Annual Report and Accounts 2007	Note 47 ("Related Party Transactions") and 48 ("Transactions with Key Management Personnel")	221-223
Annual Report and Accounts 2007	Notes to the Accounts	160-223 ⁽¹⁾
Annual Report and Accounts 2008	Independent Auditors' Report	40
Annual Report and Accounts 2008	Consolidated Income Statement	41
Annual Report and Accounts 2008	Consolidated Balance Sheet	42-43
Annual Report and Accounts 2008	Consolidated Statement of Recognised Income and Expenses	44
Annual Report and Accounts 2008	Consolidated Cash Flow Statement	44-45
Annual Report and Accounts 2008	Notes to the Financial Statements	48-140
Annual Report and Accounts 2008	Note 51 ("Related Party Transactions") and 52 ("Transactions with Key Management Personnel")	132-134
Annual Report and Accounts 2008	Financial Statements	40-140
HBOS Rights Issue Prospectus	Part XIV ("Operating and Financial Review of HBOS")	73-116
HBOS Rights Issue Prospectus	Part XV ("Selected Statistical and Other Information")	117-121
May 2009 Prospectus	Overview	119-120
May 2009 Prospectus	Operating and Financial Review	118-161
May 2009 Prospectus	Selected Statistical and Other Information	162-167
May 2009 Prospectus	Group Risk Management	168-177
May 2009 Prospectus	Cash Flow Analysis	180

4 ECN Issuer Information Incorporated by Reference

<i>Document</i>	<i>Section</i>	<i>Page number in such document</i>
LBG Capital No.1's Articles of Association		whole document
LBG Capital No.2's Articles of Association		whole document

Note:

(1) Including such other information in the relevant annual report and accounts as is cross-referenced therein.

Unless otherwise specifically incorporated by reference herein, information that is itself incorporated by reference in the above documents is not incorporated by reference into this document. It should be noted that, except as set forth above, no other portion of the above documents are incorporated by reference into this document.

In addition, where sections of any of the above documents which are incorporated by reference into this document cross-reference other sections of the same document, such cross-referenced information shall not form part of this document, unless otherwise incorporated by reference herein.

PART XXVII

DEFINITIONS

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

10p Limited Voting Shares	Has the meaning given to it in paragraph 10 of Part V (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”).
10p Ordinary Shares	Has the meaning given to it in paragraph 10 of Part V (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”).
2008 Circular	The document sent, with certain exceptions, to Ordinary Shareholders dated 3 November 2008 in relation to the Acquisition and the placing and open offer by the Company in November 2008.
2008 Interim Results	The condensed statutory consolidated interim financial statements of Lloyds Banking Group for the six months ended 30 June 2008, together with the independent review report thereon.
2008 Prospectus	The prospectus dated 18 November 2008 in relation to the Acquisition and the placing and open offer by the Company in November 2008.
Accrued Interest	In respect of each series of Existing Capital Securities or Existing Notes, the amount of accrued and unpaid interest, in respect of the Existing Capital Securities or Existing Notes of the relevant series or class which have been accepted for exchange pursuant to the Exchange Offer, from (and including) the immediately preceding interest payment date in respect of such Existing Capital Securities or Existing Notes to (but excluding) the Settlement Date, calculated in accordance with the conditions of such Existing Capital Securities or Existing Notes.
Accrued Interest Payment	An amount in cash (rounded to the nearest \$0.01 with half a cent being rounded upwards) equal to the Accrued Interest on the Existing Capital Securities or Existing Notes validly Offered for Exchange by a Holder and accepted by the ECN Issuers.
Acquisition	The acquisition by Lloyds Banking Group of HBOS which was effected by way of a court approved scheme of arrangement.
Annual Report	The annual report and accounts of Lloyds Banking Group for the year ended 31 December 2008 published on 30 April 2009.
ATOP	DTC’s Automated Tender Offer Program.
B Shares	The B shares which were contemplated to be created in the capital of the Company as disclosed in the May 2009 Prospectus and “B Share” means any one of them.
Basel II	The New Capital Adequacy Framework issued in June 2004 by the Basel Committee, as implemented by Directive 2006/48/EC and Directive 2006/49/EC.
Beneficial Owner	A person who is the owner of an interest in a particular principal amount of the Existing Securities, as shown in the records of DTC, Euroclear or Clearstream, Luxembourg, as applicable, or its Direct Participants.
Board	The board of directors of Lloyds Banking Group as at the date of this document.
BOS	Bank of Scotland plc.
Branch Based Customers	Branch-based retail, personal and certain small and medium-sized entity customers.

BofA Merrill Lynch	Banc of America Securities LLC.
Business Day	A day other than a Saturday or Sunday or a public holiday on which commercial banks and foreign exchange markets are open for business in London or New York (or in the case of a sum payable on the Settlement Date in euro, a day on which the TARGET2 System is open).
Cash Rounding Amount	The amount in cash (rounded to the nearest £0.01 or \$0.01, as applicable, with half a penny or cent being rounded upwards) to be paid by the relevant ECN Issuer to a Holder on the Settlement Date for any fractional portion of ECNs such Holder would otherwise be entitled to receive as a result of the application of the relevant Exchange Ratio that is not an integral multiple of \$1,000, which is to be calculated in the manner described in “Terms of the Exchange Offer – Exchange Ratio”.
Circular	The document sent, with certain exceptions, to Ordinary Shareholders dated 3 November 2009 in relation to the Proposals.
Clearing System Exchange Instruction	The electronic exchange and blocking instruction in the form specified in the Clearing System Notice for submission by Direct Participants to Lucid via Euroclear or Clearstream, Luxembourg and in accordance with the requirements of Euroclear or Clearstream, Luxembourg by the relevant deadlines in order for Holders to be able to participate in the Exchange Offer.
Clearing System Notice	The notice to be sent to Direct Participants by each of Euroclear or Clearstream, Luxembourg on or about the date of this Exchange Offer Memorandum informing Direct Participants, <i>inter alia</i> , of the procedures to be followed in order to participate in the Exchange Offer.
Clearing Systems	Euroclear, Clearstream, Luxembourg and DTC.
Clearstream, Luxembourg	Clearstream Banking, <i>société anonyme</i> .
College of Commissioners	The European Commission’s College of Commissioners.
Companies Act	The Companies Act 2006 (as amended) in so far as in force.
Company	Lloyds Banking Group plc.
Consolidated Core Tier 1 Ratio	The Core Tier 1 capital ratio of Lloyds Banking Group calculated on a consolidated basis in accordance with applicable Regulatory Capital Requirements.
Conversion Price	The price per Ordinary Share at which the ECNs will convert into Ordinary Shares upon the occurrence of a Conversion Trigger, which will be calculated by the Lead Dealer Managers on 27 November 2009 by multiplying the Unadjusted Conversion Price by the Right Issue Factor. The Conversion Price is subject to adjustment from time to time in accordance with the provisions of the ECN Deed Poll.
Conversion Price Announcement	The announcement to be made by Lloyds Banking Group, on behalf of itself and the ECN Issuers, on 27 November 2009, specifying the Conversion Price.
Credit Guarantee Scheme	HM Treasury’s Credit Guarantee Scheme.
Dealer Managers	The Lead Dealer Managers, together with Citigroup Global Markets Limited, Goldman, Sachs & Co., HSBC Securities (USA) Inc. and J.P. Morgan Securities Inc.
Deferred Shares	Has the meaning given to it in paragraph 10 of Part V (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”) of this Exchange Offer Memorandum.
Definitive Certificates	In relation to any Global Certificate, the definitive registered ECNs for which such Global Certificate may be exchanged.

Definitive Dollar Existing Notes	The U.S. Dollar denominated Existing Notes which are in definitive bearer form with interest coupons attached, and which are held outside the Clearing Systems.
D.F. King	D.F. King & Co., Inc.
Direct Participant	Each person who is shown in the records of DTC, Euroclear or Clearstream, Luxembourg, as applicable, as a holder of an interest in the Existing Notes.
Directors	The directors of Lloyds Banking Group as at the date of the Exchange Offer Memorandum and “Director” means any one of them.
DTC	The Depository Trust Company.
DTC Instruction Notice	The (i) electronic instruction transmitted through ATOP in accordance with ATOP procedures which must be submitted by Holders in accordance with the requirements of DTC (to the effect set out in “Terms of the Exchange Offer – Procedures for participating in the Exchange Offer”).
Early Tender Deadline	5:00 p.m., New York City time, on 20 November 2009, subject to the right of LBG Capital No.1 to extend, re-open, terminate, withdraw and/or amend the Exchange Offer pursuant to the provisions set out herein.
ECN or ECNs	See “Enhanced Capital Notes”.
ECN Agency Agreement	The agency agreement to be entered into between, <i>inter alia</i> , the ECN Issuers, the Guarantors and the ECN Principal Paying and Conversion Agent on or around the Settlement Date relating to the ECNs.
ECN Issuer	LBG Capital No.1 or LBG Capital No.2
ECN Conditions	The terms and conditions of the ECNs, as set out in Part A of Appendix 2 (“Terms and Conditions of the ECNs”) of this Exchange Offer Memorandum, as supplemented by the relevant Pricing Schedule set out in Part B of Appendix 2.
ECN Deed Poll	See “Enhanced Capital Notes”.
ECN Issuer	LBG Capital No.1 or LBG Capital No.2.
ECN Principal Paying and Conversion Agent	The Bank of New York Mellon.
ECN Registrar	The Bank of New York Mellon (Luxembourg S.A.).
ECN Trust Deed	The trust deed to be entered into between, <i>inter alia</i> , the ECN Issuers, the Guarantors and the ECN Trustee on or around the Settlement Date relating to the ECNs.
ECN Trustee	BNY Corporate Trustee Services Limited.
Eligible Institution	A firm or other entity identified in Rule 17Ad-15 under the U.S. Securities Exchange Act of 1934 as “an eligible guarantor institution,” including (as such terms are defined therein) (i) a bank; (ii) a broker, dealer, municipal securities broker or dealer or government securities broker or dealer; (iii) a credit union; (iv) a national securities exchange, registered securities association or clearing agency; or (v) a savings association that is a participant in a Securities Transfer Association.
Enhanced Capital Notes	The enhanced capital notes to be issued by the ECN Issuers in exchange for Existing Securities pursuant to the Exchange Offer. The ECNs will have the benefit of a guarantee from either Lloyds Banking Group and/or Lloyds TSB Bank and of a deed poll (the “ECN Deed Poll”) to be entered into by Lloyds Banking Group in favour of the Holders thereof and references herein to “ECNs”

shall mean, unless the context otherwise requires, such securities, guarantee and deed poll taken together. The ECNs will be issued on the Settlement Date and their terms and conditions and a description of the guarantees thereon are set out in Part A of Appendix 2 (“Terms and Conditions of the ECNs”) to this Exchange Offer Memorandum.

Euroclear	Euroclear Bank S.A./N.V.
European Economic Area or EEA or EEA State	The European Union, Iceland, Norway and Liechtenstein.
Exchange Agents	Lucid and D.F. King.
Exchange Instruction	A Clearing System Exchange Instruction or a DTC Instruction Notice.
Exchange Offer	The invitation by LBG Capital No.1 to Holders to Offer to Exchange Existing Securities for ECNs as set forth herein.
Exchange Offer Conditions	The condition that the relevant Issuers will not accept any Offer to Exchange from Holders of Existing Securities unless all resolution(s) as may be necessary to approve, effect and implement the Exchange Offer are passed at the Lloyds Banking Group General Meeting (or any adjournment of such meeting).
Exchange Offer Memorandum	This Exchange Offer Memorandum dated 3 November 2009.
Exchange Offer Period	From the commencement of the Exchange Offer on 3 November 2009 until the Expiration Deadline unless such period is extended, in relation to any series or class of Existing Securities, as described herein.
Exchange Offers	The Exchange Offer and the Non-U.S. Exchange Offer.
Exchange Priority	The order, on a series by series basis, in which the ECN Issuers will accept Offers to Exchange each series or class of Existing Securities into the relevant series of ECNs, as more particularly set out in Appendix 1 (“Exchange Priority”) of this Exchange Offer Memorandum.
Exchange Ratio	Holders who validly tender their Existing Securities prior to the Early Tender Deadline, and who do not validly withdraw prior to the Withdrawal Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to the principal amount of the Existing Securities tendered and accepted for exchange. Holders who validly tender their Existing Securities after the Early Tender Deadline but prior to the Expiration Deadline, and whose Existing Securities are accepted for exchange, will receive ECNs having a principal amount equal to 90 per cent. of the principal amount of the Existing Securities tendered and accepted for exchange. If, as a result of the application of the relevant Exchange Ratio, a Holder would be entitled to receive ECNs which would have an aggregate principal amount that is not an integral multiple of \$1,000, the relevant ECN Issuer will pay, or procure that there is paid, the fractional portion as a Cash Rounding Amount to the relevant Holder on the Settlement Date.
Existing Capital Securities	The outstanding innovative tier 1 capital securities which are subject to the Exchange Offer, as more particularly set out in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum.
Existing Notes	The outstanding upper tier 2 notes which are subject to the Exchange Offer, as more particularly set out in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum.

Existing Securities	The Existing Capital Securities and the Existing Notes, as more particularly set out in Part III (“Summary Offering Table”) of this Exchange Offer Memorandum.
Existing Securities Trustee	Any and each trustee of a series of Existing Securities appointed from time to time.
Expiration Deadline	Midnight, 12:00 a.m., New York City time, on 7 December 2009, or such earlier or later date as notified by Lucid or D.F. King DTC Exchange Agent to the Holders and subject to the right of LBG Capital No.1, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), to extend, re-open, terminate, withdraw and/or amend the Exchange Offer pursuant to the provisions set out herein.
Financial Services Authority or FSA	The Financial Services Authority of the United Kingdom.
Fitch	Fitch Ratings Ltd.
Fixed Rate of Exchange	The spot rate of exchange for the conversion of sterling into U.S. dollars prevailing at or about noon (London time) on 17 November 2009 as appearing on or derived from the Relevant Page.
FSA Stress Test	The result of the Group’s financial modeling which is based on the economic assumptions published by the FSA in March 2009.
FSMA	The Financial Services and Markets Act 2000.
GAPS Payment	Has the meaning given to it in paragraph 1 of Part V (“Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc”).
GAPS Withdrawal Deed	The deed of withdrawal to be entered into between the Company and The Lords Commissioners of Her Majesty’s Treasury relating to the Company’s withdrawal from GAPS and providing for, <i>inter alia</i> , (i) the payment by the Group of the GAPS Payment and the HM Commitment Commission, (ii) the reaffirmation by the Company of the lending commitments given by the Company in connection with the Group’s then proposed participation in GAPS on 6 March 2009 and (iii) the implementation by the Company of a restructuring plan, upon such plan’s approval by the College of Commissioners of the European Commission.
General Meeting	The general meeting of Lloyds Banking Group to be held at 11.00 a.m. on 26 November 2009 Hall 12, The Atrium, National Exhibition Centre, Birmingham B40 1NT, or any adjournment thereof, to consider and, if thought fit, to approve and to pass various resolutions in connection with the Proposals, among other things.
Global Certificate	An Unrestricted Global Certificate or a Restricted Global Certificate, as the case may be, and together, “ Global Certificates ”.
Government or UK Government	The Government of the United Kingdom.
Government Asset Protection Scheme or GAPS	The asset protection scheme established by HM Treasury.
Group	Lloyds Banking Group and its subsidiary undertakings from time to time.
HBOS	HBOS plc, a company incorporated under the laws of Scotland (registered under no. 218813).
HBOS Annual Report	The annual report and accounts for HBOS for the year ended 31 December 2008.
HBOS Group	HBOS and its subsidiary undertakings from time to time.

HBOS Rights Issue Prospectus	The prospectus issued by HBOS dated 19 June 2008 in connection with the rights issue announced by HBOS on 29 April 2008.
HM Treasury	The Commissioners of Her Majesty's Treasury
HMT Commitment Commission	Has the meaning given to it in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).
HMT Transactions	Has the meaning given to it in paragraph 4 of Part V ("Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc").
HMT Undertaking to Subscribe	Means the document described as such in paragraph 4 of Part VI ("Letter from Sir Winfried Bischoff, Chairman of Lloyds Banking Group plc").
Holder	A holder of Existing Securities.
Interim Management Statement	The Interim Management Statement of the Company dated 3 November 2009 as set out in full at the Appendix to Part IX ("Information on the Group") of the Rights Issue Prospectus (as incorporated by reference herein).
Indirect Participant	Each person who holds an interest in Existing Securities through organisations which are accountholders with DTC, Euroclear or Clearstream, Luxembourg.
Interim Results News Release	The news release published by Lloyds Banking Group on 5 August 2009 containing the Interim Statutory Results of Lloyds Banking Group for the six months ended 30 June 2009, together with the independent review report thereon.
Interim Statutory Results	The reviewed condensed statutory consolidated interim financial statements of Lloyds Banking Group for the six months ended 30 June 2009, together with the independent review report thereon, as set out on pages 87 to 115 and 117 and 118 respectively, of the Interim News Release.
Intermediary	Any broker, dealer, commercial bank, trust company or other nominee or custodian who holds Existing Securities or an interest in Existing Securities on behalf of another person.
Issue Price	Has the meaning given to it in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).
IRS	The United States Internal Revenue Service
Joint Bookrunners	Has the meaning given to it in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).
LBG Capital No.1	LBG Capital No.1 plc, a wholly-owned indirect subsidiary of Lloyds Banking Group plc.
LBG Capital No.2	LBG Capital No.2 plc, a wholly-owned indirect subsidiary of Lloyds Banking Group plc.
Lead Dealer Managers	BofA Merrill Lynch and UBS.
Lending Commitments Deed	The deed poll entered into by Lloyds Banking Group on 6 March 2009 pursuant to which it undertook to support lending to creditworthy borrowers in the UK in a commercial manner.
Limited Voting Shares	Limited voting shares of 25 pence each in the capital of Lloyds Banking Group or, following the Share Subdivision becoming effective, the 10p Limited Voting Shares, as the context requires.
Lloyds Banking Group	Lloyds Banking Group plc.
Lloyds TSB Bank	Lloyds TSB Bank plc.
Lloyds TSB Bank Group	Lloyds TSB Bank and its subsidiaries from time to time.
Lloyds TSB Group	Lloyds Banking Group and its subsidiaries from time to time but excluding the HBOS Group.
Lloyds TSB Scotland	Lloyds TSB Scotland plc.

London Stock Exchange	The London Stock Exchange plc.
Lucid	Lucid Issuer Services Limited
Maximum ECN New Issue Amount	The maximum aggregate principal amount of all series of ECNs to be issued by the ECN Issuers in exchange for Existing Securities, being a principal amount equivalent to U.S.\$800,000,000, save that LBG Capital No.1 shall have the ability, with the prior consent of the Dealer Managers (such consent not to be unreasonably withheld or delayed), to increase or waive such amount in its sole discretion. The relevant principal amount of such Existing Securities shall be converted into pounds sterling at the Fixed Rate of Exchange, as calculated by the Lead Dealer Managers on 17 November 2009.
May 2009 Capital Raising	The placing and compensatory open offer of 10,408,535,000 new Ordinary Shares at the issue price of 38.43 pence per new Ordinary Share, as detailed in the May 2009 Prospectus.
May 2009 Prospectus	The prospectus dated 20 May 2009 in relation to, amongst other things, the May 2009 Capital Raising.
Member States	Member states of the European Union and “Member States” means any one of them.
Minimum New Issue Amount	The minimum aggregate principal amount of ECNs required for participation in the Exchange Offer, being U.S.\$100,000.
Moody’s	Moody’s Investor Service Limited.
New Issue Amount	The amount, in respect of each series of ECNs, to be determined by LBG Capital No.1 following the expiration of the Exchange Offer Period, as the aggregate principal amount of such series or class of ECNs to be issued and delivered in exchange for the relevant Series of Existing Securities pursuant to the Exchange Offer. Each New Issue Amount will be determined by LBG Capital No.1 and is intended to be announced on the Results Announcement Date.
New Shares	New Shares to be allotted and issued pursuant to the Rights Issue.
New Securities	The ECNs.
Non-U.S. Exchange Offer	The separate exchange offer to be made by LBG Capital No.1, LBG Capital No.2 and Lloyds Banking Group plc as described in the exchange offer memorandum dated 3 November 2009.
Notifying News Service	A recognised financial news service or services as selected by Lloyds Banking Group (e.g. Reuters/Bloomberg).
Offer to Exchange	An offer validly made to the relevant ECN Issuer by a Holder of Existing Securities to tender such Existing Securities for cash, which cash amount will be immediately applied by the relevant ECN Issuer in paying up the ECNs, in accordance with and pursuant to the terms of the Exchange Offer. The terms “Offers to Exchange”, “Offered for Exchange” and “Offering to Exchange” shall be construed accordingly.
Official List	The official list of the FSA pursuant to Part VI of the FSMA.
Ordinary Shares	Ordinary shares in the capital of the Company or, following the Share Subdivision becoming effective, the 10p Ordinary Shares, as the context requires and “Ordinary Shares” means any one of them.
Ordinary Shareholders	Holders of Ordinary Shares, and “Ordinary Shareholder” means any one of them.
Permitted Jurisdiction	Guernsey, Jersey, South Africa and Switzerland.

Pricing Schedule	The relevant pricing schedule relating to a series of ECNs as set out in Part B of Appendix 2 to this Exchange Offer Memorandum, which should be read in conjunction with the ECN Conditions.
Proposals	The Exchange Offers and the Rights Issue taken together, which are fully underwritten.
Proposals Resolutions	Has the meaning given to it in Part XXII (“Definitions”) of the Rights Issue Prospectus and is incorporated by reference herein.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and Council.
Qualifying Shareholders	Has the meaning given to it in Part XXII (“Definitions”) of the Rights Issue Prospectus and is incorporated by reference herein.
Regulation M	Regulation M under the Securities Act.
Regulatory Capital Requirements	Any applicable minimum or notional margin of solvency or minimum capital or capital requirement specified for banks or financial groups by the Financial Services Authority.
Relevant Page	The relevant page on Bloomberg or such other information service provider that displays the relevant information.
Resolutions	The resolutions set out in the notice convening the General Meeting at the end of the Circular.
Restricted Global Certificate	Each of two global certificates which will represent that portion of each series of ECNs which are issued in the United States to qualified institutional buyers within the meaning of Rule 144A under the Securities Act in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act for transactions by an issuer not involving a public offering for Existing Securities cleared through Euroclear or Clearstream, Luxembourg and Offered to Exchange and together, the “Restricted Global Certificates”.
Restricted Jurisdiction	Any jurisdiction other than a Permitted Jurisdiction.
Results Announcement	The announcement, to be made by Lloyds Banking Group, acting on behalf of the ECN Issuers, on the Results Announcement Date, detailing: (i) whether valid Offers to Exchange pursuant to the Exchange Offer are accepted; (ii) the aggregate principal amounts of each series or class of Existing Securities that the relevant ECN Issuer will be accepting for exchange; (iii) whether Offers to Exchange for each series or class of Existing Securities are to be accepted in full (if at all) or on a pro rata basis and, where accepted on a pro rata basis, the extent to which such Offers to Exchange will be scaled; (iv) each New Issue Amount; and (v) the Settlement Date.
Results Announcement Date	8 December 2009
Rights Issue	The proposed issue by way of rights of new Ordinary Shares to ordinary shareholders of the Company, on the basis described in the Rights Issue Prospectus.
Rights Issue Factor	The adjustment factor related to the Rights Issue to be applied to Unadjusted Conversion Price in order to determine the Conversion Price, as further described in Part VI (“The Exchange Offer – Terms of the Exchange Offer – Pricing of the New Securities”) of this Exchange Offer Memorandum.
Rights Issue Prospectus	The prospectus dated 3 November 2009 relating to the Rights Issue issued by Lloyds Banking Group.
Rights Issue Underwriting Agreement	Has the meaning given to it in Part XXII (“Definitions”) of the Rights Issue Prospectus and is incorporated by reference herein.
RNS	Regulatory News Service provided by London Stock Exchange plc (being a Regulated Information Service on the list of Regulatory

	Information Services maintained by the Financial Services Authority).
SEC	United States Securities and Exchange Commission.
Securities Act	The United States Securities Act of 1933, as amended.
Settlement Date	The date on which LBG Capital No.1 will deliver, or procure the delivery of, to each relevant Holder (i) the relevant ECNs in exchange for the relevant Existing Securities Offered for Exchange by such Holder and accepted for exchange pursuant to the Exchange Offer (if any), and (ii) the Accrued Interest Payment which is expected to be no later than the third Business Day following the Expiration Date, to be announced as soon as reasonably practicable after the Pricing Time on the Pricing Date.
Share Subdivision	The share subdivision pursuant to which each existing Ordinary Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided and converted into one ordinary share of 10 pence in the capital of the Company and one deferred share of 15 pence in the capital of the Company, and each existing Limited Voting Share of 25 pence in issue at the close of business on the date of the General Meeting will be subdivided and converted into one limited voting share of 10 pence and one deferred share of 15 pence in the capital of the Company.
Standard & Poor's or S&P	Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc.
Theoretical Ex-Rights Price or TERP	Has the meaning given to it in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).
UBS	UBS Securities, LLC.
UCP Announcement	The announcement to be made by Lloyds Banking Group, on behalf of itself and the ECN Issuers, on 18 November 2009, detailing the Unadjusted Conversion Price and the Fixed Rate of Exchange.
UK Listing Authority	The UK Financial Services Authority in its capacity as competent authority under the FSMA.
Unadjusted Conversion Price	The greater of (i) 90 per cent. of the closing price of an Ordinary Share on the London Stock Exchange on 17 November 2009 and (ii) the arithmetic average of Ordinary Shares on the London Stock Exchange (calculated in sterling) for each of the five consecutive trading days commencing on (and including) 11 November 2009 and ending on (and including) 17 November 2009.
Underwriters	Merrill Lynch International, UBS Limited, Citigroup Global Markets Limited, Goldman Sachs International, HSBC Bank plc and J.P. Morgan Securities Ltd.
Underwriting Agreements	Has the meaning given to it in Part XXII ("Definitions") of the Rights Issue Prospectus (as incorporated by reference herein).
United Kingdom	United Kingdom of Great Britain and Northern Ireland.
United States or U.S.	United States of America.
Unrestricted Global Certificate	Each of three global certificates which will represent that portion of each series of ECNs which are issued to persons that are not U.S. persons in an "offshore transaction" within the meaning of Regulation S under the Securities Act for Existing Securities cleared through Euroclear or Clearstream, Luxembourg, and Offered to Exchange.
Volume-Weighted Average Price	The per share volume-weighted average price of Ordinary Shares on the London Stock Exchange (calculated in sterling) on a specified trading day as displayed under the heading "Bloomberg

VWAP” on Bloomberg Page “LLOY <equity> AQR” (or its equivalent successor page if such page is not available) for the period from the scheduled open of trading on the London Stock Exchange on the relevant trading day until the scheduled close of trading on the London Stock Exchange on the relevant trading day (or if such Volume Weighted Average Price is unavailable, the market price of one share of Ordinary Shares on the relevant trading day determined, using a volume-weighted average method, by a financial institution or person (acting as an expert) appointed by LBG Capital No.1 for this purpose).

For the purposes of this document, “subsidiary”, “subsidiary undertaking”, “undertaking” and “associated undertaking” have the meanings given by the Companies Act.

Unless otherwise stated, all times referred to in this document are references to New York City time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

APPENDIX 1 EXCHANGE PRIORITY

Upon the expiration of the Exchange Offer Period, the relevant ECN Issuer, will, if it accepts Offers to Exchange the Existing Securities into ECNs, accept such Offers to Exchange in the following order of priority:

<i>Exchange Priority Level</i>	<i>ISIN</i>	<i>Issuer/Title of Existing Securities</i>
1	US4041A2AG96 US4041A3AF96	HBOS plc U.S.\$ 1,000,000,000 5.375% Undated Fixed to Floating Rate Subordinated Notes
2	USG43648AA57 US40411CAA09	HBOS Capital Funding No.2 L.P. U.S.\$ 750,000,000 6.071% Non-voting Non-cumulative Perpetual Preferred Securities
3	GB0000765403	Bank of Scotland plc U.S.\$ 250,000,000 Undated Floating Rate Primary Capital Notes
4	GB0005205751	Lloyds TSB Bank plc U.S.\$ 500,000,000 Primary Capital Undated Floating Rate Notes (Series 2)
5	GB0005224307	Lloyds TSB Bank plc U.S.\$ 750,000,000 Primary Capital Undated Floating Rate Notes (Series 1)
6	GB0005232391	Lloyds TSB Bank plc U.S.\$ 600,000,000 Primary Capital Undated Floating Rate Notes

APPENDIX 2

The following Terms and Conditions notwithstanding, no ECNs issued to this Exchange Offer will be in bearer form.

The following are the terms and conditions of the ECNs. The terms and conditions are subject to completion and amendment prior to the Settlement Date provided such amendment is not, in the opinion of LBG Capital No.1, materially prejudicial to Holders. They are qualified in their entirety by reference to the terms and conditions set out in Schedule 4 of the ECN Trust Deed, to be dated on or around 1 December 2009. In the event of any differences or inconsistencies between the terms and conditions set out in this Appendix 2 and those set out in Schedule 4 of the ECN Trust Deed, the latter shall prevail.

PART A – TERMS AND CONDITIONS OF THE ECNS SUBJECT TO COMPLETION AND AMENDMENT

*The following (excluding italicised text) is the text of the terms and conditions (the “**Conditions**”) that, subject as supplemented, completed, or amended pursuant to the provisions of the relevant Pricing Schedule, shall be applicable to the ECNs in definitive form (if any) issued in exchange for the Global Security(ies) representing each Series. The full text of these Conditions together with the provisions of the relevant Pricing Schedule shall be endorsed on Bearer ECNs or on the Certificates relating to Registered ECNs. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Schedule. Those definitions will be endorsed on the definitive ECNs or Certificates, as the case may be. References in the Conditions to “**ECNs**” are to the ECNs of one Series only, not to all ECNs that may be issued pursuant to the Exchange Offer.*

The Enhanced Capital Notes (“**ECNs**”) are constituted by a principal trust deed (the “**Principal Trust Deed**”) dated 1 December 2009 or a deed supplemental to the Principal Trust Deed (any such supplemental trust deed together with the Principal Trust Deed being referred to as the “**Trust Deed**” in each case entered into between LBG Capital No.1 plc, LBG Capital No.2 plc (each an “**Issuer**” and together, the “**Issuers**”), Lloyds Banking Group plc (“**LBG**”), Lloyds TSB Bank plc (“**LTSB**”) and BNY Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the ECN Securityholders. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the pricing schedule relating to the ECNs (the “**Pricing Schedule**”) and the form of the Bearer ECNs, Certificates, Coupons and Talons referred to below. In connection with Conversion of the ECNs, LBG has entered into a deed poll dated 1 December 2009 (the “**Deed Poll**”). An agency agreement (the “**Agency Agreement**”) dated 1 December 2009 has been entered into in relation to the ECNs between the Issuers, LBG, LTSB, the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar, The Bank of New York Mellon (Luxembourg) S.A. as transfer agent, The Bank of New York Mellon as principal paying and conversion agent and calculation agent and the other paying and conversion agents named in it. The principal paying and conversion agent, the other paying and conversion agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Principal Paying and Conversion Agent**”, the “**Paying and Conversion Agents**” (which expression shall include the Principal Paying and Conversion Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed, the Deed Poll and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of the Paying and Conversion Agents and the Transfer Agents.

The ECN Securityholders, the holders of the interest coupons (the “**Couponholders**” and the “**Coupons**” respectively) relating to Bearer ECNs and, where applicable in the case of Bearer ECNs, talons for further Coupons (the “**Talons**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the Deed Poll.

In these Conditions, references to “the Issuer” are to the entity specified as the Issuer in the relevant Pricing Schedule.

1 Form, Denomination and Title

The ECNs are issued in bearer form (“**Bearer ECNs**”) or in registered form (“**Registered ECNs**”) as specified in the relevant Pricing Schedule. Each ECN will be issued in the Specified Denomination(s) specified in the relevant Pricing Schedule.

This ECN is a Fixed Rate ECN, a Floating Rate ECN or a Fixed/Floating Rate ECN, depending upon the Interest Basis shown in the relevant Pricing Schedule.

Bearer ECNs are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered ECNs are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(b), each Certificate shall represent the entire holding of Registered ECNs by the same holder.

Title to the Bearer ECNs, Coupons and Talons shall pass by delivery. Title to the Registered ECNs shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder of any ECN, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

2 No Exchange of ECNs and Transfers of Registered ECNs

(a) No Exchange of ECNs

Registered ECNs may not be exchanged for Bearer ECNs. Bearer ECNs may not be exchanged for Registered ECNs. Bearer ECNs of one Specified Denomination may not be exchanged for Bearer ECNs of another Specified Denomination.

(b) Transfer of Registered ECNs

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

(c) Delivery of New Certificates

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

means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) Transfers Free of Charge

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

(e) Closed Periods

No ECN Securityholder may require the transfer of a Registered ECN to be registered (i) during the period of 15 days ending on the due date for redemption of the ECNs pursuant to Condition 8, (ii) during the period of 15 days prior to any Conversion Date in respect of a Conversion pursuant to Condition 7(a) or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status and Subordination of the ECNs

(a) Status

The ECNs and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the ECN Securityholders and Couponholders are subordinated as described in Condition 3(b).

(b) Subordination

In the event of:

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

the rights and claims of the ECN Securityholders and the Couponholders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligations under) the ECNs, the Coupons and the Trust Deed relating to them will be subordinated, in the manner provided in this Condition 3(b) and in the Trust Deed, to the claims of all Issuer Senior Creditors but shall rank (A) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer and (B) in priority to the claims of holders of all undated or perpetual subordinated obligations of the Issuer and to the claims of holders of all classes of share capital of the Issuer.

The provisions of this Condition 3(b) apply only to the principal, premium and interest and any other amounts payable in respect of the ECNs and Coupons and nothing in this Condition 3(b) or in Condition 12 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

4 Guarantee; Status and Subordination of the Guarantee

In these Conditions, references to “the Guarantor” are to either or both of LBG or LTSB, as is specified as the Guarantor in the relevant Pricing Schedule.

In relation to references in these Conditions to “**Guarantor**”, where the relevant Pricing Schedule specifies one of LBG or LTSB as the Guarantor, the wording appearing in the first set of brackets marked with an * shall apply to the ECNs and where both of LBG and LTSB are specified as Guarantors in the relevant Pricing Schedule, the wording appearing in the second set of brackets marked with a ** shall apply to the ECNs.

(a) Guarantee and Status

The [Guarantor has]/[the Guarantors have, jointly and severally]** irrevocably and unconditionally guaranteed the due and punctual payment of all principal, premium and interest and any other sums from time to time expressed to be payable by the Issuer in respect of the ECNs and the Coupons and under the Trust Deed in respect thereof. [Its]/[Their]** obligations in that respect (the “**Guarantee**”) are contained in the Trust Deed. The obligations of [the]/[each]** Guarantor under the Guarantee constitute direct and unsecured obligations of [the]/[that]** Guarantor, subordinated as described in Condition 4(b).

(b) Subordination

In the event of:

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

the rights and claims of the ECN Securityholders and the Couponholders against [the]/[such]** Guarantor in respect of or arising under (including any damages awarded for breach of any obligations under) the ECNs, the Coupons and the Trust Deed relating to them will be subordinated, in the manner provided in this Condition 4(b) and in the Trust Deed, to the claims of all Guarantor Senior Creditors but shall rank (a) at least *pari passu* with the claims of holders of all obligations of [the]/[such]** Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital of [the]/[such]** Guarantor on a solo and/or consolidated basis; and (b) in priority to (01) the claims of holders of all obligations of [the]/[such]** Guarantor which constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital or Tier 1 Capital of [the]/[such]** Guarantor on a solo and/or consolidated basis, (02) the claims of holders of all other undated or perpetual subordinated obligations of [the]/[such]** Guarantor, and (03) the claims of holders of all classes of share capital of [the]/[such]** Guarantor.

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

5 Set-off

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

6 Interest Calculations

(a) Interest on Fixed Rate ECNs

Each Fixed Rate ECN bears interest on its principal amount from time to time from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Fixed Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 6(f).

(b) Interest on Floating Rate ECNs

(i) Interest Payment Dates

Each Floating Rate ECN bears interest on its principal amount from time to time from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Floating Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 6(f).

(ii) Business Day Convention

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

(iii) Floating Rate of Interest for Floating Rate ECNs

The Floating Rate of Interest in respect of Floating Rate ECNs for each Interest Accrual Period shall be determined as provided herein:

(x) The Floating Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time if the Reference Rate is LIBOR or Brussels time if the Reference Rate is EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate ECNs is specified in the relevant Pricing Schedule as being other than LIBOR or EURIBOR, the Floating Rate of Interest in respect of such ECNs will be determined as provided in the relevant Pricing Schedule.

(y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above,

subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Floating Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Floating Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks, or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Floating Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(c) Interest on Fixed/Floating Rate ECNs

Each Fixed/Floating Rate ECN bears interest on its principal amount from time to time from the Interest Commencement Date and during the Fixed Interest Rate Period at the rate per annum (expressed as a percentage) equal to the Fixed Rate of Interest, such interest being paid in arrear on each Interest Payment Date falling in the Fixed Interest Rate Period, and during the Floating Interest Rate Period at the rate per annum (expressed as a percentage) equal to the Floating Rate of Interest, such interest being paid in arrear on each Interest Payment Date falling in the Floating Rate Interest Period. The amount of interest payable shall be determined in accordance with Condition 6(f).

(d) Accrual of Interest

- (i) Where an ECN is to be redeemed pursuant to Condition 8(a), 8(d) or 8(e) interest shall accrue up to (but excluding) the due date for redemption, and shall cease to accrue on such ECN on the due date for redemption unless, upon due presentation, payment is

improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the relevant Rate of Interest from time to time in the manner provided in this Condition 6 to the Relevant Date.

- (ii) In the case of a Conversion in respect of the ECNs, interest shall accrue on the principal amount of each ECN up to (but excluding) the relevant Conversion Date and interest shall cease to accrue on each ECN with effect from the relevant Conversion Date. In the case of a Conversion in respect of Bearer ECNs, all Coupons relating to Interest Payment Dates falling after the Conversion Date shall be void and no payment shall be made in respect of them.

(e) Margin, Maximum/Minimum Rates of Interest and Rounding

- (i) If any Margin is specified in the relevant Pricing Schedule (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 6(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest is specified in the relevant Pricing Schedule, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is legal tender.

(f) Calculations

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

(g) Determination and Publication of Rates of Interest and Interest Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation under the Conditions, calculate such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date to be notified to the Trustee, the Issuer, [the Guarantor]*/[the Guarantors]**, each of the Paying and Conversion Agents, the ECN Securityholders, any other Calculation Agent appointed in respect of the ECNs that is to make a further calculation upon receipt of such information and, if the ECNs are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no

event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 6(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If there is a default in payment in respect of the ECNs as provided in Condition 12(a), the accrued interest and the Rate of Interest payable in respect of the ECNs shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) Determination or Calculation by Trustee

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

(i) Definitions

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

“Business Day” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of a currency and/or one or more Business Centres specified in the relevant Pricing Schedule a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

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

- (i) if **“Actual/Actual”** or **“Actual/Actual - ISDA”** is specified in the relevant Pricing Schedule, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **“Actual/365 (Fixed)”** is specified in the relevant Pricing Schedule, the actual number of days in the Calculation Period divided by 365;
- (iii) if **“Actual/360”** is specified in the relevant Pricing Schedule, the actual number of days in the Calculation Period divided by 360;
- (iv) if **“Actual/Actual-ICMA”** is specified in the relevant Pricing Schedule,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“Determination Date” means the date(s) specified as such in the relevant Pricing Schedule or, if none is so specified, the Interest Payment Date(s); and

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

- (v) if **“30/360”**, **“360/360”** or **“Bond Basis”** is specified in the relevant Pricing Schedule, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30.

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Fixed Interest Rate Period” means the period specified as such in the relevant Pricing Schedule.

“Fixed Rate of Interest” means the rate of interest payable from time to time in respect of a Fixed Rate ECN or during the Fixed Interest Rate Period in respect of a Fixed/Floating Rate ECN and that is either specified in the relevant Pricing Schedule or calculated in accordance with the provisions in the relevant Pricing Schedule.

“Floating Interest Rate Period” means the period specified as such in the relevant Pricing Schedule.

“Floating Rate of Interest” means the rate of interest payable from time to time in respect of a Floating Rate ECN or during the Floating Interest Rate Period in respect of a Fixed/Floating Rate ECN and that is either specified in the relevant Pricing Schedule or calculated in accordance with the provisions in the relevant Pricing Schedule.

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

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate ECNs, and unless otherwise specified in the relevant Pricing Schedule, shall mean the Fixed Coupon Amount or Broken Amount specified in the relevant Pricing Schedule as being payable on the Interest Payment Date ending in the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date specified in the relevant Pricing Schedule or such other date as may be specified in the relevant Pricing Schedule.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Pricing Schedule or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Payment Date” means, in respect of the ECNs, the date or dates specified as such, or determined as provided, in the relevant Pricing Schedule.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified in the relevant Pricing Schedule.

“Rate of Interest” means the Fixed Rate of Interest and/or Floating Rate of Interest, as the case may be.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Pricing Schedule.

“Reference Rate” means the rate specified as such in the relevant Pricing Schedule.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Pricing Schedule.

“Specified Currency” means the currency in which the ECNs are denominated.

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(j) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the relevant Pricing Schedule and for so long as any ECN is outstanding. Where more than one Calculation Agent is appointed in respect of the ECNs, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or financial institution engaged in the inter-

bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

(k) No Deferral

Neither the Issuer nor [the]* [either]** Guarantor shall be entitled to defer or cancel any payments of interest or any other amounts payable in respect of the ECNs.

7 Conversion

(a) Conversion upon Conversion Trigger

- (i) If the Conversion Trigger occurs at any time, each ECN shall, subject to and as provided in this Condition 7(a) and in the Deed Poll, be converted on the relevant Conversion Date into new and/or existing (as determined by LBG) Ordinary Shares credited as fully paid in the manner and in the circumstances described below and in the Deed Poll.

The ECNs are not convertible at the option of ECN Securityholders at any time.

The “**Conversion Trigger**” shall occur if at any time, as disclosed in the latest published annual or semi-annual consolidated financial statements of LBG or as otherwise publicly disclosed by LBG at any time, LBG’s Consolidated Core Tier 1 Ratio is less than 5 per cent. As used herein, “**Consolidated Core Tier 1 Ratio**” means the ratio of the Core Tier 1 Capital of LBG to the risk weighted assets of LBG, in each case, calculated on a consolidated basis.

As soon as reasonably practicable following the occurrence of the Conversion Trigger, the Issuer shall give notice thereof to holders of the ECNs (the “**Conversion Trigger Notice**”) in accordance with Condition 17. The Conversion Trigger Notice shall specify the Consolidated Core Tier 1 Ratio, the prevailing Conversion Price and the Conversion Date, which shall be not earlier than 20 London business days nor later than 30 London business days following the giving of the Conversion Trigger Notice.

- (ii) If the Conversion Trigger occurs, the ECNs will be converted in whole and not in part as provided below and in the Deed Poll.
- (iii) Prior to giving the Conversion Trigger Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of LBG stating that the Conversion Trigger has occurred and the Trustee shall accept such certificate without any further enquiry as sufficient evidence of such matters, and such certificate will be conclusive and binding on the Trustee and the ECN Securityholders.
- (iv) If a Relevant Event shall occur that is a Qualifying Relevant Event, then, where the Conversion Date falls on or after the New Conversion Condition Effective Date, each ECN shall, upon the occurrence of the Conversion Trigger, subject to and as provided in this Condition 7(a) and the Deed Poll, be converted into Relevant Shares of the Approved Entity.
- (v) If a Relevant Event shall occur that is a Non-Qualifying Relevant Event and where the Acquiror is an Approved Entity, then with effect from the date falling eight days following the occurrence of such Relevant Event and unless the Conversion Trigger shall have occurred prior to such date, outstanding ECNs shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently.
- (vi) If a Relevant Event shall occur that is a Non-Qualifying Relevant Event and where the Acquiror is not an Approved Entity, then with effect from the occurrence of such Relevant Event and unless the Conversion Trigger shall have occurred prior to such date, outstanding ECNs shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently.

(b) Payment of Conversion Settlement Sum

- (i) Upon Conversion, the Issuer shall redeem the ECNs at a price (the “**Conversion Settlement Sum**”) equal to their principal amount. ECN Securityholders shall be deemed irrevocably to have directed and authorised the Issuer to pay the Conversion Settlement Sum to LBG as consideration for LBG’s agreement to issue Ordinary Shares pursuant to the Deed Poll and the obligations of the Issuer and [the]*/[each]** Guarantor to pay principal on the relevant ECNs to holders of the ECNs shall be discharged by the Issuer’s obligation to pay the Conversion Settlement Sum to LBG.
- (ii) In order to obtain delivery of Ordinary Shares on a Conversion, ECN Securityholders will be required to comply with the provisions of the Deed Poll which require, amongst other things, the delivery of a Conversion Notice and the relevant ECNs or the Certificate representing the same (in the case of Registered ECNs) on or before the Notice Cut-off Date. If ECN Securityholders fail to make such delivery on or before the Notice Cut-off Date or otherwise the relevant Conversion Notice shall have been determined to be null and void pursuant to the Deed Poll, the Deed Poll contains provisions relating to the sale of the relevant Ordinary Shares and the payment of the net proceeds of such sale (the “**Ordinary Share Sale Proceeds**”) to such ECN Securityholders.
- (iii) LBG has agreed in the Deed Poll that, in consideration of the Issuer’s agreement to pay the Conversion Settlement Sum, it will issue or deliver Ordinary Shares as provided therein and, in the circumstances provided therein, pay the Ordinary Share Sale Proceeds to the relevant ECN Securityholders. ECN Securityholders shall have recourse only to LBG under the Deed Poll for the issue or delivery of such Ordinary Shares pursuant to the Deed Poll or, as the case may be, the payment of any Ordinary Share Sale Proceeds and in particular will have no recourse in respect thereof to the Issuer or (but without prejudice to the foregoing) [the]*/[either]** Guarantor.
- (iv) The Trustee shall have no responsibility in respect of LBG’s obligations under the Deed Poll upon Conversion, shall have no powers of enforcement under or in respect of the Deed Poll and shall incur no liability in respect of any failure by LBG to comply with its obligations under the Deed Poll. The ECN Securityholders alone shall have power to enforce the terms of the Deed Poll against LBG.

(c) Accrued Conversion Interest

- (i) Upon Conversion, the Issuer shall pay to the ECN Securityholders the Accrued Conversion Interest (if any) in respect of the ECNs on the Conversion Date.
- (ii) Payment of any Accrued Conversion Interest will be made by transfer to an account with a bank in the principal financial centre of the Specified Currency or, in the case of a payment in euro, to an account with a bank in a city in which banks have access to the TARGET System, as specified in the relevant Conversion Notice or, as the case may be, as provided below.
- (iii) If, in the case of a Conversion, a Conversion Notice and the relevant ECNs or the Certificate representing the same (in the case of Registered ECNs) are not delivered to a Paying and Conversion Agent on or before the Notice Cut-off Date or otherwise the relevant Conversion Notice shall have been determined or treated as null and void pursuant to the Deed Poll, any Accrued Conversion Interest in respect of the relevant ECNs which is to be paid on the Conversion Date shall be paid on the relevant Conversion Date to the Principal Paying and Conversion Agent for distribution to the relevant ECN Securityholders in accordance with Condition 9 or in such other manner and at such time as the Trustee shall determine and notify to the ECN Securityholders pursuant to Condition 17.

The following italicised text is a summary of certain provisions of the Deed Poll relating to the delivery of Ordinary Shares upon Conversion. The Deed Poll is separate from and does not form part of these Conditions.

(a) Conversion by LBG

In consideration of the Issuer’s obligation to pay the Conversion Settlement Sum to LBG, LBG shall issue or deliver a number of new and/or existing Ordinary Shares on Conversion of each ECN determined by dividing the principal amount of an ECN (where relevant, translated

into pounds sterling at the Prevailing Rate on the second London business day prior to the relevant Conversion Date by (i) in the case of ECNs, where the Specified Currency is not pounds sterling, the conversion price (the “**Conversion Price**”) in effect on the relevant Conversion Date or (ii) in the case of ECNs, where the Specified Currency is pounds sterling, by the Specified Conversion Price “**Specified Conversion Price**” means the Conversion Price in effect on the relevant Conversion Date, save that if the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange on the dealing day immediately preceding the Conversion Date shall be greater than the Conversion Price in effect on such dealing day, “**Specified Conversion Price**” means the sum of (i) the Conversion Price in effect on the relevant Conversion Date and (ii) £0.01.

The initial Conversion Price per Ordinary Share in respect of the ECNs is specified in the relevant Pricing Schedule. The Conversion Price is subject to adjustment in the circumstances described in paragraph (b) below.

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

(b) Adjustment of Conversion Price

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

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

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

where:

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

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

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

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

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

where:

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

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

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

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

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

A

where:

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

B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of LBG or any Subsidiary of LBG, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

“Effective Date” means, in respect of this sub-paragraph (b)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “Dividend” and in the definition of “Fair Market Value”) be determined as at the Effective Date.

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

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

A + C

where:

A is the number of Ordinary Shares in issue on the Effective Date

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

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

Such adjustment shall become effective on the Effective Date.

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

- (v) If and whenever LBG shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

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

where:

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

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this sub-paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever LBG shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the ECNs or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the ECNs, which term shall for this purpose include any Further ECNs), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

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

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this sub-paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) If and whenever LBG or any Subsidiary of LBG or (at the direction or request of or pursuant to any arrangements with LBG or any Subsidiary of LBG) any other company, person or entity (otherwise than as mentioned in sub-paragraph (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the ECNs which term shall for this purpose exclude any Further ECNs) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

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

$$A + C$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by LBG or any Subsidiary of LBG (or at the direction or request or pursuant to any arrangements with LBG or any Subsidiary of LBG) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this sub-paragraph (b)(vii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this sub-paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this sub-paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the ECNs, which term shall for this purpose include any Further ECNs) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the

first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

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

where:

- A is the number of Ordinary Shares in issue on the dealing day immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by LBG or any Subsidiary of LBG (or at the direction or request or pursuant to any arrangements with LBG or any Subsidiary of LBG) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this sub-paragraph (b)(viii) or sub-paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this sub-paragraph (b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this sub-paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this sub-paragraph (b)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) If and whenever LBG or any Subsidiary of LBG or (at the direction or request of or pursuant to any arrangements with LBG or any Subsidiary of LBG) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraph (b)(ii), (b)(iii), (b)(iv), (b)(vi) or (b)(vii) above (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under sub-paragraph (b)(v) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

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

where:

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

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this sub-paragraph (b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) *If LBG determines that a reduction to the Conversion Price should be made for whatever reason, the Conversion Price will be reduced (either generally or for a specified period as notified to ECN Securityholders) in such manner and with effect from such date as LBG shall determine and notify to the ECN Securityholders.*

Notwithstanding the foregoing provisions:

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

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii), the following provisions shall apply:

- (1) *the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;*
- (2) (x) *the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by LBG to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement referred to in paragraph (b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;*

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

(c) Retroactive Adjustments

If the Conversion Date in relation to the conversion of any ECN shall be after the record date in respect of any consolidation, reclassification or sub-division as is mentioned in paragraph (b)(i), or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraph (b)(ii), (iii), (iv), (v) or (ix), or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraphs (b)(vi) and (vii) or of the terms of any such modification as is mentioned in paragraph (b)(viii), but before the relevant adjustment to the Conversion Price becomes effective under paragraph (b) (such adjustment, a “**Retroactive Adjustment**”), then LBG shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or delivered to the relevant ECN Securityholder, in accordance with the instructions contained in the relevant Conversion Notice or, as the case may be, to the Relevant Person, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued or delivered on Conversion of the relevant ECN (together with any fraction of an Ordinary Share not so issued or delivered), is equal to the number of Ordinary Shares which would have been required to be issued or delivered on Conversion if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date. Where such Additional Ordinary Shares are to be issued to the Relevant Person, the provisions of paragraph (j)(iii) below relating to the sale of Ordinary Shares shall apply mutatis mutandis.

(d) Decision of an Independent Financial Adviser

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

(e) Share Option Schemes

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

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

On any adjustment, the resultant Conversion Price, if a number that is of more decimal places than the initial Conversion Price, shall be rounded to such decimal place. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent

adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by LBG to ECN Securityholders promptly after the determination thereof.

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

(g) Qualifying Relevant Event

- (i) If a Qualifying Relevant Event shall occur, the ECNs shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, be converted into Relevant Shares of the Approved Entity, mutatis mutandis as provided in accordance with this Deed Poll, at a Conversion Price that shall be initially the New Conversion Price and where the principal amount of the ECNs (where relevant) shall be translated into pounds sterling at the Prevailing Rate on the second London business day prior to the relevant Conversion Date.*
- (ii) The New Conversion Price shall be subject to adjustment in the circumstances provided in this Deed Poll (with such modifications and amendments as an Independent Financial Adviser acting in good faith shall determine to be appropriate) and LBG shall give notice to ECN Securityholders of the New Conversion Price and of any such modifications and amendments.*
- (iii) In the case of a Qualifying Relevant Event:*
 - (1) LBG shall, on or prior to the New Conversion Condition Effective Date, enter into such agreements and arrangements, which may include deeds supplemental to this Deed Poll, and such amendments and modifications to this Deed Poll shall be made to ensure that, with effect from the New Conversion Condition Effective Date, the ECNs shall be convertible into, or exchangeable for, Relevant Shares of the Approved Entity, mutatis mutandis in accordance with, and subject to, this Deed Poll (as may be so supplemented, amended or modified) at an initial Conversion Price equal to the New Conversion Price;*
 - (2) LBG shall, where the Conversion Date falls on or after the New Conversion Condition Effective Date, procure the issue and/or delivery of the relevant number of Relevant Shares in the manner provided in this Deed Poll, as may be supplemented, amended or modified as provided above.*
- (iv) Within 10 calendar days following the occurrence of a Relevant Event, LBG shall give notice thereof to the ECN Securityholders (a “**Relevant Event Notice**”).*

The Relevant Event Notice shall specify:

 - (1) the identity of the Acquiror;*
 - (2) whether the Relevant Event is a Qualifying Relevant Event or a Non-Qualifying Relevant Event;*
 - (3) in the case of a Qualifying Relevant Event, if determined at such time, the New Conversion Price;*
 - (4) in the case of a Non-Qualifying Relevant Event where the Acquiror is an Approved Entity, that, with effect from the date falling eight days following the occurrence of the Relevant Event and unless the Conversion Trigger shall have occurred prior to such date, outstanding ECNs shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently; and*
 - (5) in the case of a Non-Qualifying Relevant Event where the Acquiror is not an Approved Entity, that, with effect from the occurrence of the Relevant Event and unless the Conversion Trigger shall have occurred prior to such date, outstanding ECNs shall not be subject to Conversion at any time notwithstanding that a Conversion Trigger may occur subsequently.*
- (v) “**Acquiror**” means the person which, following a Relevant Event, controls LBG.*

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

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

“Excepted Person” means any of:

- (i) the United Kingdom Government;
- (ii) any agency of the United Kingdom Government;
- (iii) any person or entity (other than a body corporate) controlled by the United Kingdom Government or any such agency referred to in (ii) above; and
- (iv) a body corporate in which the United Kingdom Government and/or any agency of the United Kingdom Government and/or any person or entity referred to in (iii) is (directly or indirectly) the legal or beneficial owner of more than 75 per cent. of the issued Ordinary Shares (or equivalent) or of the votes that may ordinarily be cast at a general meeting of Shareholders (or the like) of such body corporate.

The **“New Conversion Condition”** shall be satisfied if by not later than seven days following the occurrence of a Relevant Event where the Acquiror is an Approved Entity, LBG shall have entered into arrangements to its satisfaction with the Approved Entity for delivery of Relevant Shares upon a Conversion of the ECNs as provided in this Deed Poll.

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

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

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

where:

NCP is the New Conversion Price.

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

VWAPRS means the average of the Volume Weighted Average Price of the Relevant Shares (translated, if necessary, into pounds sterling at the Prevailing Rate on the relevant dealing day) on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred (and where references in the definition of “Volume Weighted Average Price” to “Ordinary Shares” shall be construed as a reference to the Relevant Shares and in the definition of “dealing day”, references to the “Relevant Stock Exchange” shall be to the relevant Recognised Stock Exchange).

VWAPOS is the average of the Volume Weighted Average Price of the Ordinary Shares on each of the 10 dealing days ending on the dealing day prior to the date the Relevant Event shall have occurred.

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

“Qualifying Relevant Event” means a Relevant Event where:

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

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

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

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

- (i) where the Acquiror is not an Excepted Person:
 - (a) the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the issued Ordinary Shares of LBG; or
 - (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors of LBG, whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise; or
 - (ii) where the Acquiror is an Excepted Person, the acquisition or holding of legal or beneficial ownership of 75 per cent. or more of the issued Ordinary Shares of LBG;
- and “**controlled**” shall be construed accordingly.

“**Relevant Share Currency**” means the currency in which the Relevant Shares are quoted or dealt in on the relevant Recognised Stock Exchange on the New Conversion Condition Effective Date.

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

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

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

(i) Fractions

Fractions of Ordinary Shares will not be issued or delivered pursuant to this Deed Poll upon a Conversion and no cash payment will be made in lieu thereof. However, if one or more Conversion Notices and relevant ECNs or Certificates representing the same (in the case of Registered ECNs) are delivered not later than the Notice Cut-off Date such that the Ordinary Shares to be issued or delivered on Conversion of ECNs are to be registered in the same name, the number of Ordinary Shares to be issued or transferred and delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such ECNs to be converted.

Where Ordinary Shares are to be issued to the Relevant Person pursuant to paragraph (j)(iii) below, the number of Ordinary Shares so to be issued and/or delivered shall be calculated on the basis of the aggregate principal amount of the ECNs to be converted in respect of which such issue or delivery is to be made.

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

- (i) In order to obtain delivery of the relevant Ordinary Shares on a Conversion of the ECNs, the relevant ECN Securityholder must (a) if the ECNs held by it are in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver a duly completed Conversion Notice, together with the relevant ECNs or Certificates representing the same (in the case of Registered ECNs) to the specified office of any Paying and Conversion Agent at least five business days in the relevant place of delivery prior to the relevant Conversion Date (the “**Notice Cut-off Date**”) or (b) if the ECNs held by it are represented by a Global Security or are in definitive form and held through Euroclear or Clearstream, Luxembourg, give a notice to the Principal Paying and Conversion Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg prior to the Notice Cut-off Date (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying and Conversion Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the ECN Securityholder; (2) the principal amount of ECNs held by it and the subject of the Conversion; (3) the CREST account details or, if on Conversion the Ordinary Shares are not a participating security in CREST, the address to which the Ordinary Shares should be delivered; and (4) such other details as Euroclear or

Clearstream, Luxembourg may require. Any reference in this Deed Poll to delivering Conversion Notices and ECNs shall, whilst the ECNs are represented by a Global Security or the relevant ECNs are in definitive form and held through Euroclear or Clearstream, Luxembourg, be construed accordingly.

If such delivery is made or notice is given after the end of normal business hours at the specified office of the relevant Paying and Conversion Agent or on a day which is not a business day in such place, such delivery or notice shall be deemed for all purposes of this Deed Poll to have been made or given on the next following such business day.

- (ii) Subject as provided herein, the relevant Ordinary Shares will be issued and delivered in accordance with the instructions given in the relevant Conversion Notice, provided the Conversion Notice and the relevant ECNs or the Certificate representing the same (in the case of a Registered ECN) are delivered not later than the Notice Cut-off Date.
- (iii) If the Conversion Notice and relevant ECNs or the Certificate representing the same (in the case of a Registered ECN) are not delivered to the specified office of a Paying and Conversion Agent on or before the Notice Cut-off Date, then on the Settlement Date, the relevant Ordinary Shares will be issued or delivered to a person (the “**Relevant Person**”) selected by LBG. LBG shall procure that all of such Ordinary Shares shall be sold by or on behalf of the Relevant Person as soon as reasonably practicable, based on advice from a reputable financial institution, investment or commercial bank or broker selected by LBG and subject to any necessary consents being obtained and to the deduction by or on behalf of the Relevant Person of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Relevant Person in connection with the issue, allotment and sale thereof, the net proceeds of sale shall as soon as reasonably practicable be distributed rateably to the relevant ECN Securityholders in accordance with Condition 9 of the ECNs or in such other manner and at such time as LBG shall determine and notify to the ECN Securityholders.

The amount of such net proceeds of sale payable to a holder pursuant to this sub-paragraph (iii) shall (without prejudice to paragraph (c)) be treated for all purposes as a good discharge of the obligations of LBG under this Deed Poll in respect of the relevant Conversion.

LBG shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this sub-paragraph (iii) or in respect of any sale of any Ordinary Shares or Additional Ordinary Shares, whether for the timing of any such sale or the price at or manner in which any such Ordinary Shares or Additional Ordinary Shares are sold or the inability to sell any such Ordinary Shares or Additional Ordinary Shares.

- (iv) Any Conversion Notice shall be irrevocable. Failure properly to complete and deliver a Conversion Notice and deliver the relevant ECNs or the Certificate representing the same in the case of a Registered ECN may result in such notice being treated as null and void and LBG shall be entitled to effect settlement in accordance with sub-paragraph (iii) above. Any determination as to whether any Conversion Notice has been properly completed and delivered as provided in this Deed Poll shall be made by LBG in its sole discretion and shall be conclusive and binding on the relevant ECN Securityholders.

(k) Taxes and Duties

An ECN Securityholder or Relevant Person must pay (in the case of the Relevant Person by means of deduction from the net proceeds of sale referred to in paragraph (j) above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion (other than any taxes or capital, issue and registration and transfer taxes or stamp duties payable in the United Kingdom in respect of the issue or transfer and delivery of the Ordinary Shares (including any Additional Ordinary Shares) in accordance with a Conversion Notice delivered pursuant to this Deed Poll which shall be paid by LBG) and such ECN Securityholder or the Relevant Person (as the case may be) must pay (in the case of the Relevant Person, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of an ECN or interest therein.

If LBG shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties payable for which it is responsible as provided above, the ECN Securityholder or Relevant Person, as the case may be, shall be entitled (but shall not be obliged) to tender and pay the same and LBG as a separate and independent stipulation, covenants to reimburse and indemnify on an after tax basis each ECN Securityholder or Relevant Person, as the case may be, in respect of any payment thereof and any penalties payable in respect thereof.

(l) Delivery

LBG will procure that Ordinary Shares to be issued or delivered on a Conversion will be issued or delivered to the holder of the relevant ECNs completing the relevant Conversion Notice or its nominee. Such Ordinary Shares will be deemed to be issued and delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued and delivered pursuant to paragraph (c) will be deemed to be issued or delivered as of the relevant Reference Date.

Ordinary Shares will be delivered in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST, in which case Ordinary Shares will be delivered in certificated form. Where Ordinary Shares are to be delivered through CREST, they will be delivered to the account specified by the relevant ECN Securityholder in the relevant Conversion Notice or, as the case may be, as specified by the Relevant Person, on the relevant Settlement Date (or, in the case of Additional Ordinary Shares, not later than seven London business days following the Reference Date). Where Ordinary Shares are to be delivered in certificated form, a certificate in respect thereof will be dispatched by mail free of charge to the relevant ECN Securityholder or as it may direct in the relevant Conversion Notice or, where Ordinary Shares are to be issued or delivered to the Relevant Person pursuant to paragraph (j)(iii) above, as directed by the Relevant Person (in each case uninsured and at the risk of the relevant recipient) within 28 days following the relevant Conversion Date or, as the case may be, the Reference Date.

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

(m) Ordinary Shares

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

(n) Purchase or Redemption of Ordinary Shares

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

(o) Notices

Where this Deed Poll requires notices to be given to ECN Securityholders, such notices shall be given in accordance with Condition 17 of the ECNs or in such other manner as notice to ECN Securityholders is required or permitted to be given pursuant to the ECNs.

(p) Covenants

Whilst any ECN remains outstanding, LBG will, save with the approval of an Extraordinary Resolution:

(i) *(other than in connection with a Newco Scheme) not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:*

- (1) by the issue of fully paid Ordinary Shares or other Securities to Shareholders and other holders of shares in the capital of LBG which, by their terms, entitle the holders thereof to receive Ordinary Shares or other shares or Securities on a capitalisation of profits or reserves; or*
- (2) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a Dividend in cash; or*
- (3) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of LBG which, by their terms, entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or*
- (4) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of LBG or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,*

unless, in any such case, the same constitutes a Dividend or otherwise gives rise (or would, but for the provisions of paragraph (f) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price;

(ii) *not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation but so that nothing in this paragraph (p)(ii) shall prevent:*

- (1) any consolidation, reclassification or subdivision of the Ordinary Shares; or*
- (2) any modification of such rights which is not, in the determination in good faith of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the ECNs; or*
- (3) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of LBG to enable title to securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of LBG made in connection with the matters described in this paragraph (p)(ii) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or*
- (4) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto LBG shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);*

- (iii) *procure that no Securities (whether issued by LBG or any Subsidiary of LBG or procured by LBG or any Subsidiary of LBG to be issued or issued by any other person pursuant to any arrangement with LBG or any Subsidiary of LBG) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of paragraph (i) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;*
- (iv) *not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;*
- (v) *not reduce its issued share capital, share premium account, capital redemption reserve, or any uncalled liability in respect thereof, or any non-distributable reserves, except:*
 - (1) *pursuant to the terms of issue of the relevant share capital; or*
 - (2) *by means of a purchase or redemption of share capital of LBG to the extent in any such case permitted by applicable law; or*
 - (3) *as permitted by Sections 610(2) and (3) of the Companies Act; or*
 - (4) *where the reduction does not involve any distribution of assets to Shareholders; or*
 - (5) *solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or*
 - (6) *a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the Court of Session in Scotland or other court of competent jurisdiction and which does not involve the return to Shareholders, either directly or indirectly, of an amount standing to the credit of the share premium account of LBG and in respect of which LBG shall have tendered to the Court of Session in Scotland or other court of competent jurisdiction such undertaking as it may require prohibiting, so long as any of the ECNs remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of LBG as a result of such reduction; or*
 - (7) *to create distributable reserves; or*
 - (8) *pursuant to a Newco Scheme; or*
 - (9) *by way of transfer to reserves as permitted under applicable law; or*
 - (10) *where the reduction is permitted by applicable law and LBG is advised by an Independent Financial Adviser, acting in good faith, that the interests of the ECN Securityholders will not be materially prejudiced by such reduction; or*
 - (11) *where the reduction is permitted by applicable law and results in (or would, but for the provisions of paragraph (i) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made,*
provided that, without prejudice to the other provisions of these Conditions, LBG may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of ECN Securityholders;
- (vi) *if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates (as defined in Section 988(1) of the Companies Act)) of the offeror to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a*

scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the ECN Securityholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of LBG, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the Conversion and/or to the holders of the ECNs (which like offer or scheme in respect of such ECN Securityholders shall entitle any such ECN Securityholders to receive the same type and amount of consideration it would have received had it held the number of Ordinary Shares to which such ECN Securityholder would be entitled assuming Conversion in the relevant period);

- (vii) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that, immediately after completion of the Scheme of Arrangement, such amendments are made to this Deed Poll as are necessary to ensure that the ECNs may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to this Deed Poll and the ordinary shares or units or the equivalent of Newco are:
 - (A) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market; or
 - (B) listed and admitted to trading on another Recognised Stock Exchange;
- (viii) issue, allot and/or deliver Ordinary Shares upon Conversion subject to and as provided in this Deed Poll;
- (ix) use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares and the Ordinary Shares issued upon Conversion shall be admitted to listing and trading on the Relevant Stock Exchange or admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market (and provided always that such Ordinary Shares are listed on a recognised stock exchange for the purposes of Section 1005 of the Income Tax Act 2007);
- (x) at all times keep available for issue, free from pre-emptive or other preferential rights, sufficient Ordinary Shares to enable Conversion of the ECNs, and all other rights of subscription and exchange for Ordinary Shares, to be satisfied in full; and
- (xi) where the provisions of this Deed Poll require or provide for a determination by an Independent Financial Adviser, LBG shall use all reasonable endeavours promptly to appoint an Independent Financial Adviser for such purpose.

(q) Modifications and Amendments

LBG may, without the consent of ECN Securityholders or any other person, make any modification or amendment to this Deed Poll:

- (1) that is in its opinion of a formal, minor or technical nature or is made to correct a manifest or proven error; or
- (2) that is in its opinion not materially prejudicial to the interests of the ECN Securityholders; or
- (3) that is approved by an Extraordinary Resolution of the ECN Securityholders.

(r) Enforcement

An ECN Securityholder may, at its discretion, and without notice institute such proceedings against LBG as it may think fit to enforce any term or condition binding on LBG under this Deed Poll, but may not take any proceedings to enforce any obligation of LBG under or arising from this Deed Poll for the payment of any sum (including any damages awarded for breach of any obligations) other than instituting proceedings for the winding-up of LBG, proving in any winding-up of LBG and/or claiming in any liquidation of LBG. No payment in respect of this Deed Poll (including any damages as aforesaid) may be made by LBG nor will the ECN Securityholders accept the same, otherwise than during or after a winding-up or

liquidation of LBG, unless LBG has given prior written notice to, and received no objection from, the FSA, which LBG shall confirm to the ECN Securityholders. No remedy against LBG, other than as referred to in this paragraph (r) shall be available to the ECN Securityholders, including for the recovery of amounts owing in respect of any breach by LBG of any of its other obligations under or in respect of this Deed Poll.

In any liquidation or winding-up of LBG, the claims of ECN Securityholders (other than to the extent such claims relate to a failure to deliver Ordinary Shares on Conversion) shall be subordinated and rank *mutatis mutandis* as provided in Condition 4(b) of the ECNs as if references therein to the Guarantor were references to LBG and the claims of ECN Securityholders (to the extent such claims relate to a failure to deliver Ordinary Shares on Conversion) shall be subordinated such that, in such liquidation or winding-up, the ECN Securityholders shall be entitled to receive only such amounts (if any) as they would have received if they had been the holders of such Ordinary Shares.

(s) Definitions

In this Deed Poll, unless otherwise provided:

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

“Clearstream, Luxembourg” means Clearstream Banking, société anonyme.

“Companies Act” means the Companies Act 2006.

“Conversion Date” means, in the case of a Conversion upon Conversion Trigger, the date specified as such in the relevant Conversion Trigger Notice.

“Conversion upon Conversion Trigger” means a Conversion of the ECNs pursuant to Condition 7(a) of the ECNs.

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

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

and provided further that, if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price *cum-Dividend* (or *cum- any other entitlement*) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or delivered do not rank for that Dividend (or other entitlement), the Volume Weighted Average Price on each of such dates shall, for the purposes of this definition, be deemed to be the amount thereof reduced by an amount

equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

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

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

“Dividend” means any dividend or distribution in respect of the Ordinary Shares to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes, without limitation, an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

- (i) where: (1) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a cash Dividend of an amount equal to the greater of (i) the Fair Market Value of such cash amount and (ii) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation on the Relevant Stock Exchange or, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or delivered is determined or (2) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant capitalisation on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued or delivered is determined;
- (ii) any issue of Ordinary Shares falling within paragraph (b)(ii) of this Deed Poll shall be disregarded;
- (iii) a purchase or redemption or buy back of share capital of LBG by or on behalf of LBG or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of LBG or any of its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a **“Specified Share Day”**) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the

Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by LBG or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (iv) if LBG or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (iii) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (v) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by LBG for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than, or in addition to, LBG, such dividend or distribution shall for the purposes of this Deed Poll be treated as a dividend or distribution made or paid to Shareholders by LBG, and the foregoing provisions of this definition and the provisions of this Deed Poll, including references to LBG paying or making a dividend, shall be construed accordingly, and any such determination shall be made on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit.

“ECNs” shall, unless the context otherwise requires, mean the ECNs of a particular Series.

“ECN Securityholders” has the meaning provided in the Conditions of the ECNs and shall, for the purposes of this Deed Poll, if the ECNs are represented by a Global Security or are in definitive form and held through Euroclear or Clearstream, Luxembourg, include each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of ECNs (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such ECNs standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error), and such person shall be treated by LBG as the holder of such principal amount of such ECNs for all purposes. In addition, the term **“ECN Securityholder”** (as defined) shall, in the case of a Conversion of ECNs, for the purposes only of this Deed Poll, also include the person who was the holder of the relevant ECN on the relevant Conversion Date until such time as LBG shall have satisfied its obligations in full pursuant to this Deed Poll in respect of the Conversion of such ECN. The expression **“ECN holders”**, **“ECN”** and **“holder of ECNs”** and related expressions shall be construed accordingly.

“Euroclear” means Euroclear Bank S.A./N.V.

“Exempt Newco Scheme” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (i) admitted to trading on the Relevant Stock Exchange or (ii) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as LBG or Newco may determine.

“Extraordinary Resolution” has the meaning provided in the Trust Deed.

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

“FSA” or **“Financial Services Authority”** means the Financial Services Authority or such other governmental authority in the United Kingdom (or, if LBG becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to LBG and the LBG Group.

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

“Global Security” means the global security in bearer form initially representing the Bearer ECNs on the Issue Date and/or the global security in registered form initially representing the Registered ECNs on the Issue Date, as the context may require.

“Independent Financial Adviser” means an independent financial institution of international repute appointed at its own expense by LBG.

“LBG Group” means LBG and its Subsidiaries.

“London Stock Exchange” means the London Stock Exchange plc.

“Newco Scheme” means a scheme of arrangement or analogous proceeding (**“Scheme of Arrangement”**) which effects the interposition of a limited liability company (**“Newco”**) between the Shareholders of LBG immediately prior to the Scheme of Arrangement (the **“Existing Shareholders”**) and LBG; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of

LBG; (iv) all Subsidiaries of LBG immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of LBG) are Subsidiaries of LBG (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement LBG (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by LBG immediately prior to the Scheme of Arrangement.

“Notice Cut-off Date” has the meaning provided in paragraph (j)(i).

“Ordinary Shares” means fully paid ordinary shares in the capital of LBG currently with a par value of £0.10 each.

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

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

“Reference Date” means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

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

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

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

“Retroactive Adjustment” has the meaning provided in paragraph (c).

“Securities” means any securities including, without limitation, shares in the capital of LBG, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of LBG.

“Series” means a series of ECNs issued pursuant to the Trust Deed that have identical terms on issue and are expressed to have the same series number, as set out in the relevant Pricing Schedule.

“Settlement Date” means the 15th London business day following the relevant Conversion Date.

“Shareholders” means the holders of Ordinary Shares.

“Specified Date” has the meaning provided in sub-paragraphs (b)(vii) and (viii).

“Spin-Off” means:

- (i) a distribution of Spin-Off Securities by LBG to Shareholders as a class; or
- (ii) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than LBG) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with LBG or any of its Subsidiaries.

“Spin-Off Securities” means equity share capital of an entity other than LBG or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than LBG.

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

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

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

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

References to **“ordinary share capital”** has the meaning provided in Section 832 of the Income and Corporation Taxes Act 1988 and **“equity share capital”** has the meaning provided in Section 548 of the Companies Act.

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

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

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

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

Unless otherwise provided herein, terms defined in the ECNs or the Trust Deed shall have the same meaning in this Deed Poll.

References in this Deed Poll to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market of the London Stock Exchange and

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

8 Redemption and Purchase

(a) Final Redemption

Unless previously converted, redeemed or purchased and cancelled as provided in these Conditions, each ECN shall be redeemed on the Maturity Date specified in the relevant Pricing Schedule at its principal amount (or at such other amount as may be specified in the relevant Pricing Schedule).

(b) Conditions to Redemption and Purchase

Any redemption or purchase of the ECNs in accordance with Condition 8(d), (e) or (g) is subject to (i) LBG giving at least one month’s prior written notice to, and receiving no objection from or, in the case of any redemption of the ECNs prior to the fifth anniversary of the Issue Date, receiving the consent of, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that any such notice is required to be given) and (ii) LBG (both at the time of, and immediately following, the redemption or purchase) being in compliance with the Regulatory Capital Requirements applicable to it from time to time (and a certificate from any two Authorised Signatories of LBG confirming such compliance shall be conclusive evidence of such compliance).

Prior to the publication of any notice of redemption pursuant to Condition 8(d) or (e), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied and the reasons therefor and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, and such certificate shall be conclusive and binding on the Trustee and the ECN Securityholders.

(c) Early Redemption

Save as provided in Conditions 8(d) and (e) (and subject to Condition 7(b)) the Issuer shall not be entitled to redeem the ECNs prior to the Maturity Date.

(d) Redemption Due to Taxation

If, immediately prior to the giving of the notice referred to below, a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 8(b) and having given not less than 10 nor more than 21 days’ notice to the Trustee, the Principal Paying and Conversion Agent, the Registrar and, in accordance with Condition 17, the ECN Securityholders (which notice shall, subject as provided in Condition 8(f), be irrevocable), redeem in accordance with these Conditions at any time (in the case of a Fixed Rate ECN or in the Fixed Interest Rate Period in the case of a Fixed/Floating Rate ECN) or on any Interest Payment Date (in the case of a Floating Rate ECN or in the Floating Interest Rate Period in the case of a Fixed/Floating Rate ECN) all, but not some only, of the ECNs at their principal amount, together with any accrued but unpaid interest to (but excluding) the relevant redemption date. Upon the expiry of such notice, the Issuer shall redeem the ECNs as aforesaid.

(e) Redemption for Regulatory Purposes

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 8(b) and having given not less than 10 nor more than 21 days’ notice to the ECN Securityholders in accordance with Condition 17, the Trustee, the Principal Paying and Conversion Agent and the Registrar (which notice shall, subject as provided in Condition 8(f), be irrevocable), redeem in accordance with these Conditions at any time (in the case of a Fixed Rate ECN or in the Fixed Interest Rate Period in the case of a Fixed/Floating Rate ECN) or on any Interest Payment Date (in the case of a Floating Rate ECN or in the Floating Interest Rate Period in the case of a Fixed/Floating Rate ECN) all, but not some only, of the ECNs at their principal amount (or at such other amount as may be specified in the relevant Pricing

Schedule), together with any accrued but unpaid interest to but excluding the relevant redemption date. Upon the expiry of such notice, the Issuer shall redeem the ECNs as aforesaid.

(f) Conversion Trigger

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

(g) Purchases

The Issuer or LBG (or any Subsidiary of LBG) may, subject to Condition 8(b), at any time purchase or procure others to purchase beneficially for its account ECNs in any manner and at any price. In any such case, purchases of Bearer ECNs will be made together with all unmatured Coupons and unexchanged Talons (if appropriate) appertaining thereto.

(h) Cancellation

All ECNs redeemed by the Issuer pursuant to this Condition 8 together, in the case of Bearer ECNs, with all unmatured Coupons and unexchanged Talons relating thereto (if appropriate) will forthwith be cancelled. All ECNs purchased by or on behalf of the Issuer or LBG or any Subsidiary of LBG may be held, reissued, resold or, at the option of LBG or the Issuer or any such Subsidiary, surrendered for cancellation (together, where applicable, with all unmatured Coupons and all unexchanged Talons) to the Principal Paying and Conversion Agent. ECNs so surrendered shall be cancelled forthwith (together, where applicable, with all unmatured Coupons and unexchanged Talons attached). Any ECNs so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and [the]*/[each]** Guarantor in respect of any such ECNs shall be discharged.

(i) Trustee Not Obligated to Monitor

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

In the case of a redemption of the ECNs pursuant to Condition 8(e), LBG intends to replace the ECNs with the issue of securities or other instruments that, on a solo and/or consolidated basis, would, by their terms, be capable of qualifying as Lower Tier 2 Capital of LBG, or better.

The Trust Deed contains provisions entitling the Issuer or LBG to require the holder or beneficial owner of ECNs represented by an interest in the Restricted Global Certificate (as defined in the Trust Deed) to sell its interest in such ECNs or to arrange for such interest to be sold on behalf of the relevant holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended) who, in the judgement of Lloyds Banking Group, has purchased its ECNs in a transaction that is not exempt from the registration requirements of the Securities Act of 1933, as amended. In any such case, neither the Issuer nor LBG shall have any liability or responsibility for the timing of any such sale or for the price at which any such ECNs are sold. If any such sale is effected pursuant to arrangements made by the Issuer or LBG, the Issuer or LBG will arrange for the net proceeds of any such sale (after deduction in respect of expenses and any taxes) to the relevant holder of the ECNs at such time as the Issuer or LBG may determine.

9 Payments and Talons

(a) Bearer ECNs

(i) Payment of principal and premium (if any) in respect of the Bearer ECNs to be made to holders of the Bearer ECNs and payment of accrued interest payable on a redemption of the Bearer ECNs (other than on an Interest Payment Date) and payment of any

Accrued Conversion Interest that is to be paid in accordance with this Condition 9 shall, in each case, be made against presentation and surrender of the relevant Bearer ECNs at the specified office of any Paying and Conversion Agent outside the United States.

- (ii) Payment of interest to be made to holders of the Bearer ECNs on an Interest Payment Date will be made against presentation and surrender of the relevant Coupons at the specified office of any Paying and Conversion Agent outside the United States.
- (iii) All such payments referred to in (i) and (ii) shall be made by cheque payable in the relevant currency drawn on or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (iv) Payments of all amounts other than as referred to in (i) and (ii) will be made as provided in these Conditions.

(b) Registered ECNs

- (i) Payments of principal and premium (if any) to be made to holders in respect of Registered ECNs and payments of accrued interest payable on a redemption of Registered ECNs (other than on an Interest Payment Date) and payment of any Accrued Conversion Interest that is to be paid in accordance with this Condition 9 shall, in each case, be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in (ii) below.
- (ii) Payments of interest to be made to holders in respect of Registered ECNs due on an Interest Payment Date shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”).
- (iii) All such payments shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such ECN at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (iv) Payments of all other amounts other than as referred to in (i) and (ii) will be made as provided in these Conditions.

(c) Payments in the United States

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

(d) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10. No commission or expenses shall be charged to the ECN Securityholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The initial Principal Paying and Conversion Agent, the other Paying and Conversion Agents, Registrar, Transfer Agents and Calculation Agent and their respective specified offices are listed below. The Principal Paying and Conversion Agent, the Paying and Conversion Agents,

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

In addition, the Issuer shall:

- (i) forthwith appoint a Paying and Conversion Agent in New York City in respect of any Bearer ECNs denominated in U.S. dollars in the circumstances described in paragraph (c) above; and
- (ii) in the event that it or [the]/[either]** Guarantor would be obliged to pay additional amounts on or in respect of any ECN or Coupon pursuant to Condition 10 by virtue of such ECN or Coupon being presented for payment in the United Kingdom, it will appoint and at all times thereafter maintain a Paying and Conversion Agent in a jurisdiction within Europe (other than the United Kingdom) and which otherwise complies with the foregoing provisions of this Condition 9(e).

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

(f) Unmatured Coupons and unexchanged Talons

- (i) Upon Conversion of Bearer ECNs, all Coupons in respect thereof relating to Interest Payment Dates falling after the relevant Conversion Date shall become void and no payment shall be made in respect of them.
- (ii) Upon the due date for redemption of any Bearer ECN, all unexpired Coupons relating to such ECN (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer ECN, any unexchanged Talon relating to such ECN (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talon.
- (iv) Where any Bearer ECNs are presented for redemption without all such unexpired Coupons, and where any Bearer ECN is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer ECN, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying and Conversion Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

(h) Non-Business Days

If any date for payment in respect of any ECN or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets

are open for business in the relevant place of presentation (where presentation and surrender is required pursuant to these Conditions), in such jurisdictions (if any) as shall be specified as “**Financial Centres**” in the relevant Pricing Schedule and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a Bank (as defined in Condition 9(a)(iii)) in the relevant currency on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

10 Taxation

All payments of principal, premium (if any) and/or interest to ECN Securityholders and Couponholders by or on behalf of the Issuer in respect of the ECNs and the Coupons or by or on behalf of [the]*/[a]** Guarantor under the Guarantee shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, [the]*/[the relevant]** Guarantor shall pay such additional amounts (“**Additional Amounts**”) as will result (after such withholding or deduction) in receipt by the ECN Securityholders and the Couponholders of the sums which would have been receivable (in the absence of such withholding or deduction) from it in respect of their ECNs and/or Coupons, as the case may be; except that no such Additional Amounts shall be payable with respect to any ECN or Coupon:

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

11 Prescription

Claims against the Issuer and/or [the]*/[either]** Guarantor for payment in respect of the ECNs, and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12 Events of Default

Notwithstanding any of the provisions below in Condition 12, the right to institute winding-up proceedings is limited to circumstances where payment has become due.

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

(a) Events of Default

If any of the following events (“**Events of Default**”) occurs, the Trustee at its discretion may, and if so requested by ECN Securityholders of at least one-quarter in principal amount of the ECNs then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to Condition 12(d) below), give notice to the Issuer that the ECNs are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

- (i) default is made for a period of seven days or more in the payment of any principal or premium (if any) or 14 days or more in the payment of any interest due in respect of the ECNs or any of them; or
- (ii) an order is made or a resolution is passed for the winding-up of the Issuer or [the]/[either]** Guarantor (other than a winding-up which has been approved previously in writing by the Trustee or by an Extraordinary Resolution of the ECN Securityholders).

(b) Proceedings for Winding-up

If the ECNs become due and payable (whether pursuant to Condition 12(a) above or Condition 8) and are not paid when so due and payable or any other payment obligation of the Issuer or [the Guarantor]/[the Guarantors]** under or arising in respect of the ECNs, the Coupons or the Trust Deed is not duly met, satisfied or performed (including pursuant to Condition 7(c)), the Trustee may, at its discretion, institute proceedings for the winding-up of the Issuer and/or [the Guarantor]/[the relevant Guarantor or Guarantors]** and/or prove in the winding-up of the Issuer and/or [the Guarantor]/[the relevant Guarantor or Guarantors]** and/or claim in the liquidation of the Issuer and/or [the Guarantor]/[the relevant Guarantor or Guarantors]** for such payment, provided, however, that the Trustee may only take any such action on or after the failure by the Issuer and/or [the Guarantor]/[the relevant Guarantor or Guarantors]** to make payments as described in this Condition 12(b), but may take no further or other action to enforce, prove or claim for any such payment. No payment in respect of the ECNs, the Coupons or the Trust Deed may be made by the Issuer or [the]/[such]** Guarantor pursuant to Condition 12(a) above, nor will the Trustee accept the same, otherwise than during or after a winding-up or liquidation of the Issuer or, as appropriate, [[the Guarantor]/[the relevant Guarantor or Guarantors]**, unless the Issuer or, as appropriate, [the Guarantor]/[the relevant Guarantor]** has given prior written notice (with a copy to the Trustee) to, and received no objection from, the FSA which the Issuer or, as appropriate, [the Guarantor]/[the relevant Guarantor]** shall confirm in writing to the Trustee.

(c) Enforcement

Without prejudice to Condition 12(a), the Trustee may, at its discretion, and without notice institute such proceedings against the Issuer and/or [the]/[a]** Guarantor as it may think fit to enforce any term or condition binding on the Issuer or, as appropriate, [the]/[such]** Guarantor under the Trust Deed, the ECNs or the Coupons (other than any payment obligation of the Issuer or [the]/[such]** Guarantor under or arising from the ECNs, the Coupons or the Trust Deed, including, without limitation, payment of any principal or premium or interest in respect of the ECNs or the Coupons, including any damages awarded for breach of any obligations) and in no event shall the Issuer or [the]/[such]** Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions and the Trust Deed. Nothing in this Condition 12(c) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer and/or [the]/[a]** Guarantor, proving in any winding-up of the Issuer and/or [the]/[a]** Guarantor and/or claiming in any liquidation of the Issuer and/or [the]/[a]** Guarantor in respect of any

payment obligations of the Issuer or [the]/[the relevant]** Guarantor arising from or in respect of the ECNs, the Coupons or the Trust Deed (including any damages awarded for breach of any obligations).

(d) Entitlement of Trustee

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

(e) Right of ECN Securityholders

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

(f) Extent of ECN Securityholder's remedy

No remedy against the Issuer or [the]/[a]** Guarantor, other than as referred to in this Condition 12, shall be available to the Trustee or the ECN Securityholders or Couponholders, whether for the recovery of amounts owing in respect of the ECNs or under the Trust Deed or in respect of any breach by the Issuer or [the]/[a]** Guarantor of any of its other obligations under or in respect of the ECNs, Coupons or under the Trust Deed.

(g) Deed Poll

Nothing in this Condition shall affect the rights of any ECN Securityholder to enforce its rights under the Deed Poll, subject to and as provided in the Deed Poll.

13 Meetings of ECN Securityholders, Modification, Waiver and Substitution

(a) Meetings of ECN Securityholders

The Trust Deed contains provisions for convening meetings of ECN Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Deed Poll. Such a meeting may be convened by ECN Securityholders holding not less than 10 per cent. in aggregate principal amount of the ECNs for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in aggregate principal amount of the ECNs for the time being outstanding, or at any adjourned meeting two or more persons being or representing ECN Securityholders whatever the aggregate principal amount of the ECNs held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the ECNs or any date for payment of interest on the ECNs, (ii) to reduce or cancel the principal amount of, or any premium payable on redemption of, the ECNs, (iii) to reduce the rate or rates of interest in respect of the ECNs or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the amounts of any interest in respect of the ECNs, (iv) to vary any method of, or basis for, calculating the amounts payable on redemption of the ECNs, (v) to vary the currency or currencies of payment or denomination of the ECNs, (vi) to modify the provisions concerning the quorum required at any meeting of ECN Securityholders or the majority required to pass the Extraordinary Resolution, (vii) to modify or cancel the Guarantee [in respect of either Guarantor]**, or (viii) to amend or modify the Deed Poll (but without prejudice to the power of LBG to modify or amend the Deed Poll as set out therein), in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in

aggregate principal amount of the ECNs for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on ECN Securityholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

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

No modification to these Conditions or any other provisions of the Trust Deed (whether pursuant to this Condition 13 or otherwise) shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice).

(b) Modification of the Trust Deed

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

The Trustee will have no power to agree to any modification of the Deed Poll on behalf of the ECN Securityholders.

(c) Newco Scheme

In the event of a Newco Scheme, the Issuer may, in relation to ECNs in respect of which LBG is the Guarantor or a Guarantor, but subject as provided in Condition 13(d) and the Trust Deed, without the consent of ECN Securityholders or the Couponholders, at its option, procure that Newco is substituted under such ECNs as Guarantor (jointly and severally with LTSB if LTSB is also a Guarantor in respect of such ECNs) in place of LBG.

(d) Substitution

The Trust Deed contains provisions (in the case of (i) below) requiring the Trustee and (in the case of (ii) and (iii) below) permitting the Trustee, subject to the Issuer giving at least one month's notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may from time to time require or accept and so long as there is a requirement to give such notice), to agree, without the consent of the ECN Securityholders or the Couponholders, to (i) any substitution as provided in and for the purposes of Condition 13(c); (ii) the substitution of the Issuer's successor in business in place of the Issuer, or of any previously substituted company, as principal debtor under the Trust Deed and the ECNs; or (iii) the substitution of the successor in business of [the]*/[either]** Guarantor in place of [the]*/[such]** Guarantor, or of any previously substituted company, as guarantor under the Trust Deed and the ECNs subject to (in the case of (ii) and (iii) only) the Trustee being of the opinion that such substitution will not be materially prejudicial to the interests of the ECN Securityholders and subject to (in the case of (i), (ii) and (iii)) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution, the Trustee may agree, without the consent of the ECN Securityholders or the Couponholders, to a change of the law governing the ECNs, the Coupons, the Talons and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the ECN Securityholders.

(e) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the ECN Securityholders as a class and shall not have regard to the consequences of such exercise for individual ECN Securityholders or Couponholders and the Trustee shall not be entitled to require, nor shall any ECN Securityholder or Couponholder be entitled to claim, from the Issuer or [the]*/[either]** Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual ECN Securityholders or Couponholders.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, [the]*/[either]** Guarantor and any entity related to the Issuer or [the]*/[either]** Guarantor without accounting for any profit.

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

15 Replacement of ECNs, Certificates, Coupons and Talons

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

16 Further Issues

The Issuer may, from time to time, without the consent of the ECN Securityholders or Couponholders, create and issue further securities either having the same terms and conditions as the ECNs in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the ECNs) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the ECNs include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the ECNs. Any further securities forming a single series with the outstanding securities of any series (including the ECNs) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the ECN Securityholders and the holders of securities of other series where the Trustee so decides.

17 Notices

Notices to ECN Securityholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If, in the opinion of the Trustee, any such publication is not practicable, notice shall be validly given if published in another

leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of ECNs in accordance with this Condition 17.

18 Contracts (Rights of Third Parties) Act 1999

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

19 Definitions

“Accrued Conversion Interest” means, in the case of the Conversion of the ECNs, interest accrued on the ECNs from (and including) the Interest Payment Date immediately preceding the Conversion Date (or, if none, from the Issue Date) to (but excluding) the Conversion Date;

“Authorised Signatory” means a director or the company secretary of the Issuer or LBG, as the case may be;

a **“Capital Disqualification Event”** is deemed to have occurred (1) if, at any time LBG or, where LTSB is a or the Guarantor, LTSB is required under Regulatory Capital Requirements to have regulatory capital, the ECNs would no longer be eligible to qualify in whole or in part (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion in the Lower Tier 2 Capital of LBG or, as the case may be, LTSB on a consolidated basis; or (2) if as a result of any changes to the Regulatory Capital Requirements or any change in the interpretation or application thereof by the FSA, the ECNs shall cease to be taken into account in whole or in part (save where this is only as a result of any applicable limitation on the amount that may be so taken into account) for the purposes of any “stress test” applied by the FSA in respect of the Consolidated Core Tier 1 Ratio;

“Conversion” means the conversion of the ECNs into Ordinary Shares pursuant to these Conditions and the Deed Poll, and **“convert”** and **“converted”** shall be construed accordingly;

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

“Core Tier 1 Capital” means core tier one capital as defined by the FSA as in effect and applied (as supplemented by any published statement or guidance given by the FSA) as at 1 May 2009;

“ECN Securityholder” means the bearer of any Bearer ECN or the person in whose name a Registered ECN is registered (as the case may be) and **“holder”** (in relation to an ECN, Coupon or Talon) means the bearer of any Bearer ECN, Coupon or Talon or the person in whose name a Registered ECN is registered (as the case may be);

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

“Guarantor Senior Creditors” means, in respect of [the]*/[a]** Guarantor, (a) creditors of [the]*/[such]** Guarantor whose claims are admitted to proof in the winding-up or administration of [the]*/[such]** Guarantor and who are unsubordinated creditors of [the]*/[such]** Guarantor; and (b) creditors of [the]*/[such]** Guarantor whose claims are or are expressed to be subordinated to the claims of other creditors of [the]*/[such]** Guarantor (other than those whose claims relate to obligations which constitute, or would, but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Upper Tier 2 Capital or Lower Tier 2 Capital of [the]*/[such]** Guarantor on a solo and/or consolidated basis, or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of ECN Securityholders);

“Issuer Senior Creditors” means creditors of the Issuer whose claims are admitted to proof in the winding-up or administration of the Issuer and who are unsubordinated creditors of the Issuer;

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

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

“Regulatory Capital Requirements” means any applicable requirement specified by the FSA in relation to minimum margin of solvency or minimum capital resources or capital;

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

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

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

- (i) as a result of a Tax Law Change, in making any payments on the ECNs, the Issuer (or, if the Guarantee were called, [the]*/[either]** Guarantor) has paid or will or would on the next payment date be required to pay Additional Amounts and the Issuer (or the [relevant]** Guarantor, as the case may be) cannot avoid the foregoing by taking measures reasonably available to it; or
- (ii) as a result of a Tax Law Change (x) the Issuer (or, if the Guarantee were called, the [relevant]** Guarantor, as the case may be) would not or there is more than an insubstantial risk that the Issuer or, as the case may be, [the]*/[such]** Guarantor would not be entitled to a deduction in computing its taxation liabilities in the United Kingdom in respect of all or any part of its financing expense as recognised for accounting purposes in relation to the ECNs or Guarantee, as the case may be, or (y) the Issuer (or the [relevant]** Guarantor, as the case may be) would not be entitled to have all or any part of any loss resulting from such deduction being taken into account in computing its taxation liabilities set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist), and in each such case the Issuer (or the [relevant]** Guarantor, as the case may be) could not avoid the foregoing in connection with the ECNs by taking measures reasonably available to it;

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

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

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

In these Conditions and the Trust Deed, capitalised terms have the meaning given to them in the relevant Pricing Schedule, the absence of any such meaning indicating that such term is not applicable to the ECNs.

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

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

Unless otherwise provided in these Conditions, terms defined and references construed in the Deed Poll shall have the same meaning and construction in these Conditions.

20 Governing Law and Jurisdiction

(a) Governing Law

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

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, any ECNs, Coupons or Talons or the Guarantee (other than Condition 4 (and related provisions of the Trust Deed) relating to the status and subordination of the Guarantee (“**Excluded Matters**”) in relation to LBG where LBG is a Guarantor, in respect of which the Court of Session in Scotland shall have jurisdiction) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any ECNs, Coupons or Talons or the Guarantee (“**Proceedings**”) may be brought in such courts. [Each of the Issuer and the Guarantor have]*/[The Issuer and each Guarantor has]** in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England in respect of any such Proceedings (other than in respect of Excluded Matters in relation to LBG where LBG is a Guarantor). Where LBG is a Guarantor, LBG has irrevocably submitted to the jurisdiction of the Court of Session in Scotland in respect of any Proceedings relating to Excluded Matters.

(c) Service of Process

LBG has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

PART B – Pricing Schedules Relating to the ECNs

The Pricing Schedules set out below relate to each series of ECNs. Each Pricing Schedule is subject to completion and amendment prior to the Settlement Date provided such amendment is not, in the opinion of LBG Capital No.1 (in consultation with the Dealer Managers) materially prejudicial to Holders. The Pricing Schedules are qualified in their entirety by reference to the Pricing Schedules set out in Schedule 4 of the ECN Trust Deed, to be dated on or around 1 December 2009. In the event of any differences or inconsistencies between the Pricing Schedules set out in this Appendix 2 and those set out in Schedule 4 of the ECN Trust Deed, the latter shall prevail.

PRICING SCHEDULE

relating to
LBG Capital No.2 plc the (“Issuer”)
USD Denominated Floating Rate ECNs due 2019 (the “ECNs”)
guaranteed on a subordinated basis by
Lloyds Banking Group and Lloyds TSB Bank plc

The ECNs will be constituted by a Trust Deed (the “Trust Deed”) to be dated on or around 1 December 2009 between, among others, the Issuer, Lloyds TSB Bank plc, Lloyds Banking Group plc and BNY Corporate Trustee Services Limited. The terms and conditions of the ECNs are as set out in Schedule 4 to the Trust Deed as supplemented by this Pricing Schedule.

In relation to the ECNs, this Pricing Schedule is the Pricing Schedule referred to in Schedule 5 to the Trust Deed.

1	Issuer:	LBG Capital No.2 plc
2	Guarantor(s):	Lloyds Banking Group plc and Lloyds TSB Bank plc
3	(i) Series Number:	001
	(ii) Tranche Number:	1
4	Specified Currency or Currencies:	U.S. Dollars (“USD”)
5	Aggregate Nominal Amount:	
	(i) Series:	<i>The relevant New Issue Amount</i>
	(ii) Tranche:	<i>The relevant New Issue Amount</i>
6	(i) Specified Denomination:	USD 100,000 and integral multiples of USD 1,000
	(ii) Calculation Amount:	USD 1,000
7	(li) Issue Date:	10 December 2009
	(lii) Interest Commencement Date:	Issue Date
8	Maturity Date:	10 December 2019
9	Interest Basis:	3 month USDLIBOR +2.75 per cent. Floating Rate.
10	Redemption/Payment Basis:	At Maturity Date: 100 per cent. of principal amount
11	Change of Interest or Payment Basis:	Not Applicable

PROVISIONS RELATING TO INTEREST PAYABLE

12	Fixed Rate Note Provisions	Not Applicable
13	Floating Rate Note Provisions	Applicable
	(i) Interest Period(s):	The period from and including one Interest Payment Date (or the Issue Date) to but excluding the next (or first) Interest Payment Date. In each case subject to adjustment in accordance with the Business Day Convention specified below
	(ii) Interest Payment Dates:	10 March, 10 June, 10 September and 10 December in each year commencing on 10 March 2010
	(iii) First Interest Payment Date:	10 March 2010
	(iv) Interest Period Date:	Not Applicable
	(v) Business Day Convention:	Modified Following Business Day Convention
	(vi) Business Centre(s) for payment:	London and New York
	(vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent):	ECN Principal Paying and Conversion Agent

(viii)	Screen Rate Determination:	
	– Reference Rate:	3 Month USD LIBOR
	– Interest Determination Date(s):	the second New York and London business day prior to the commencement of the Interest Period for which such rate will apply
	– Relevant Screen Page:	LIBOR 01
(ix)	Margin(s):	+2.75 per cent. per annum
(x)	Minimum Rate of Interest:	Not Applicable
(xi)	Maximum Rate of Interest:	Not Applicable
(xii)	Day Count Fraction:	Actual/360
(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	N/A
14	Fixed/Floating Rate ECNs:	Not Applicable

PROVISIONS RELATING TO CONVERSION

15	Conversion Price (subject to adjustment as provided in the Deed Poll)	<i>As defined in the Exchange Offer Memorandum and announced by Lloyds Banking Group plc on 27 November 2009</i>
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PROVISIONS RELATING TO REDEMPTION

16	Redemption due to Taxation Redemption Price:	Par
17	Redemption for Regulatory Purposes Redemption Price:	Par

GENERAL PROVISIONS APPLICABLE TO THE NOTES

18	Form of Notes:	Registered Notes: The ECNs which are sold to persons that are not U.S. persons in an “offshore transaction” within the meaning of Regulation S under the Securities Act will be represented by an Unrestricted Global Certificate in registered form and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The Unrestricted Global Certificate is a Permanent Global Note which is exchangeable for a Definitive Note only in the limited circumstances specified in the agency agreement governing the ECNs.
19	Financial Centre(s) or other special provisions relating to payment dates:	London and New York
20	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	No
21	ISIN:	XS0459093448
22	Common Code:	045909344

PRICING SCHEDULE

relating to
LBG Capital No.1 plc the (“Issuer”)
USD Denominated 7.875 per cent. ECNs due 2020 (the “ECNs”)
guaranteed on a subordinated basis by
Lloyds Banking Group plc

The ECNs will be constituted by a Trust Deed (the “Trust Deed”) to be dated on or around 1 December 2009 between, among others, the Issuer, Lloyds TSB Bank plc, Lloyds Banking Group plc and BNY Corporate Trustee Services Limited. The terms and conditions of the ECNs are as set out in Schedule 4 to the Trust Deed as supplemented by this Pricing Schedule.

In relation to the ECNs, this Pricing Schedule is the Pricing Schedule referred to in Schedule 5 to the Trust Deed.

1	Issuer:	LBG Capital No.1 plc
2	Guarantor:	Lloyds Banking Group plc
3	(i) Series Number:	002
	(ii) Tranche Number:	1
4	Specified Currency or Currencies:	U.S. Dollars (“USD”)
5	Aggregate Nominal Amount:	
	(i) Series:	<i>The relevant New Issue Amount</i>
	(ii) Tranche:	<i>The relevant New Issue Amount</i>
6	(i) Specified Denomination:	USD 100,000 and integral multiples of USD 1,000
	(ii) Calculation Amount:	USD 1,000
7	(i) Issue Date:	10 December 2009
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	1 November 2020
9	Interest Basis:	7.875 per cent. Fixed Rate
10	Redemption/Payment Basis:	At Maturity Date: 100 per cent. of principal amount
11	Change of Interest or Payment Basis:	Not Applicable

PROVISIONS RELATING TO INTEREST PAYABLE

12	Fixed Rate Note Provisions	Applicable
	(i) Fixed Rate of Interest:	7.875 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	1 May and 1 November in each year commencing on 1 May 2010
	(iii) Fixed Coupon Amount(s):	<i>To be calculated according to Condition 6(f)</i>
	(iv) Broken Amount(s):	<i>To be calculated according to Condition 6(f)</i>
	(v) Day Count Fraction:	30/360
	(vi) Determination Dates:	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Securities:	Not Applicable
13	Floating Rate Note Provisions	Not Applicable
14	Fixed/Floating Rate ECNs:	Not Applicable

PROVISIONS RELATING TO CONVERSION

15	Conversion Price (subject to adjustment as provided in the Deed Poll)	<i>As defined in the Exchange Offer Memorandum and announced by Lloyds Banking Group plc on 27 November 2009</i>
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PROVISIONS RELATING TO REDEMPTION

16	Redemption due to Taxation	
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	Redemption Price:	Par
17	Redemption for Regulatory Purposes	
	Redemption Price:	Par

GENERAL PROVISIONS APPLICABLE TO THE NOTES

18	Form of Notes:	<p>Registered Notes</p> <p>The ECNs which are sold in the United States to certain qualified institutional buyers within the meaning of Rule 144A under the Securities Act in a private transaction in reliance on an exemption from the registration requirements of the Securities Act will be represented by a Restricted Global Certificate in registered form and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.</p> <p>The ECNs which are sold to persons that are not U.S. persons in an “offshore transaction” within the meaning of Regulation S under the Securities Act will be represented by an Unrestricted Global Certificate in registered form and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.</p> <p>Both the Restricted and the Unrestricted Global Certificates are Permanent Global Notes which are exchangeable for Definitive Notes only in the limited circumstances specified in the agency agreement governing the ECNs.</p>
19	Financial Centre(s) or other special provisions relating to payment dates:	New York
20	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	No
21	ISIN:	Reg S: XS0459093521 QIB only: XS0459093794
22	Common Code:	Reg S: 045909352 QIB only: 045909379

PRICING SCHEDULE

relating to
LBG Capital No.1 plc the (“Issuer”)
USD Denominated 8.571 per cent. ECNs due 2020 (the “ECNs”)
guaranteed on a subordinated basis by
Lloyds Banking Group plc

The ECNs will be constituted by a Trust Deed (the “Trust Deed”) to be dated on or around 1 December 2009 between, among others, the Issuer, Lloyds TSB Bank plc, Lloyds Banking Group plc and BNY Corporate Trustee Services Limited. The terms and conditions of the ECNs are as set out in Schedule 4 to the Trust Deed as supplemented by this Pricing Schedule.

In relation to the ECNs, this Pricing Schedule is the Pricing Schedule referred to in Schedule 5 to the Trust Deed.

1	Issuer:	LBG Capital No.1 plc
2	Guarantor(s):	Lloyds Banking Group plc
3	(i) Series Number:	003
	(ii) Tranche Number:	1
4	Specified Currency or Currencies:	U.S. Dollars (“USD”)
5	Aggregate Nominal Amount:	
	(i) Series:	<i>The relevant New Issue Amount</i>
	(ii) Tranche:	<i>The relevant New Issue Amount</i>
6	(i) Specified Denomination:	USD 100,000 and integral multiples of USD 1,000
	(ii) Calculation Amount:	USD 1,000
7	(i) Issue Date:	10 December 2009
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	30 June 2020
9	Interest Basis:	8.571 per cent. Fixed Rate
10	Redemption/Payment Basis:	At Maturity Date: 100 per cent. of principal amount
11	Change of Interest or Payment Basis:	Not Applicable

PROVISIONS RELATING TO INTEREST PAYABLE

12	Fixed Rate Note Provisions	Applicable
	(i) Fixed Rate[(s)] of Interest:	8.571 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	30 June and 31 December in each year commencing on 31 December 2009
	(iii) Fixed Coupon Amount[(s)]:	<i>To be calculated according to Condition 6(f)</i>
	(iv) Broken Amount(s):	<i>To be calculated according to Condition 6(f)</i>
	(v) Day Count Fraction:	30/360
	(vi) Determination Dates:	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Securities:	Not Applicable
13	Floating Rate Note Provisions	Not Applicable
14	Fixed/Floating Rate ECNs:	Not Applicable

PROVISIONS RELATING TO CONVERSION

15	Conversion Price (subject to adjustment as provided in the Deed Poll)	<i>As defined in the Exchange Offer Memorandum and announced by Lloyds Banking Group plc on 27 November 2009</i>
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PROVISIONS RELATING TO REDEMPTION

16	Redemption due to Taxation	
	Redemption Price:	Par
17	Redemption for Regulatory Purposes	
	Redemption Price:	Par

GENERAL PROVISIONS APPLICABLE TO THE NOTES

18	Form of Notes:	Registered Notes The ECNs which are sold in the United States to certain qualified institutional buyers within the meaning of Rule 144A under the Securities Act in a private transaction in reliance on an exemption from the registration requirements of the Securities Act will be represented by a Restricted Global Certificate in registered form and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. The ECNs which are sold to persons that are not U.S. persons in an “offshore transaction” within the meaning of Regulation S under the Securities Act will be represented by an Unrestricted Global Certificate in registered form and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. Both the Restricted and the Unrestricted Global Certificates are Permanent Global Notes which are exchangeable for Definitive Notes only in the limited circumstances specified in the agency agreement governing the ECNs.
19	Financial Centre(s) or other special provisions relating to payment dates:	London and New York
20	Talons for future Coupons to be attached to Definitive Securities (and dates on which such Talons mature):	No
21	ISIN:	Reg S: XS0459093950 QIB only: XS0459094255
22	Common Code:	Reg S: 045909395 QIB only: 045909425

APPENDIX 3

ADDITIONAL PROVISIONS RELATING TO THE ECNs WHILE IN GLOBAL FORM

Initial Issue of ECNs

Upon the registration of registered ECNs in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the common depositary for Euroclear and Clearstream, Luxembourg (the "Common Depositary"), Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of ECNs equal to the principal amount thereof to which it is entitled pursuant to the terms of the Exchange Offer.

Global Certificates

As the ECNs will be represented by an Unrestricted Global Certificate and/or a Restricted Global Certificate on issue, transfers of the holding of ECNs represented by any Unrestricted Global Certificate or Restricted Global Certificate pursuant to Condition 2(b) may only be made in part:

1. if such ECNs are held on behalf of Euroclear or Clearstream, Luxembourg or any other permitted clearing system ("Alternative Clearing System") (other than DTC) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the ECN Trustee is available; or
2. with the consent of the relevant ECN Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to 3.1, or 3.2 above, the registered holder has given the ECN Registrar not less than 30 days' notice at its specified office of the registered holder's intention to effect such transfer. Individual Definitive Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such ECNs.

Legend

Each Restricted Global Certificate and each Definitive Certificate issued in exchange for a beneficial interest in a Restricted Global Certificate will bear an appropriate legend applicable to purchasers who purchase the registered ECNs pursuant to an exemption under the Securities Act.

Amendment to ECN Conditions

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

Meetings

The holder of the ECNs represented by a Global Certificate shall (unless such Global Certificate represents only one ECN) be treated as being two persons for the purposes of any quorum requirements of a meeting of Holders. Holders of registered ECNs are entitled to one vote in respect of each integral currency unit of the relevant currency of the ECNs comprising such Holder's holding.

ECN Trustee's Powers

In considering the interests of Holders while registered ECNs are registered in the name of any nominee for, a clearing system, the ECN Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such registered ECNs and may consider such interests as if such accountholders were the holders of the ECNs represented by such Global Certificate.

Notices

So long as any ECNs are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the holders of ECNs of that series may be given by

delivery of the relevant notice to that clearing system for communication by it to the relative Accountholders in substitution for publication as required by the ECN Conditions.

APPENDIX 4 – RECENT PRICES OF EXISTING SECURITIES

Set out below, for information purposes only, are the average market prices for the Existing Securities based on data as reported by each of the Dealer Managers as at 2 November 2009 (where available)¹:

<i>ISIN</i>	<i>Title of Existing Securities</i>	<i>Price¹ (as a % of par)</i>
USG43648AA57 (Reg S) US40411CAA09 (144A)	HBOS Capital Funding No.2 L.P. U.S.\$750,000,000 6.071% Non-voting Non-cumulative Perpetual Preferred Securities	67
US4041A2AG96 (144A) US4041A3AF96 (Reg S)	HBOS plc U.S.\$1,000,000,000 5.375% Undated Fixed to Floating Rate Subordinated Notes	75
GB0000765403	Bank of Scotland plc U.S.\$250,000,000 Undated Floating Rate Primary Capital Notes	50
GB0005205751	Lloyds TSB Bank plc U.S.\$500,000,000 Primary Capital Undated Floating Rate Notes (Series 2)	50
GB0005224307	Lloyds TSB Bank plc U.S.\$750,000,000 Primary Capital Undated Floating Rate Notes (Series 1)	50
GB0005232391	Lloyds TSB Bank plc U.S.\$600,000,000 Primary Capital Undated Floating Rate Notes	50

¹ The market prices provided are indicative only based on averaged historic data provided by the Dealer Managers, and should not be taken to be trading prices offered by any person at any time or as indicative of future market prices.

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United Kingdom

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LBG Capital No.2 plc

LBG Capital No.1 plc
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United Kingdom

LLOYDS TSB BANK**LLOYDS TSB Bank plc**

25 Gresham Street
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United Kingdom

EXCHANGE AGENTS**Lucid Issuer Services Limited**

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Attention: Sunjeeve Patel, Lee Pellicci, Yves This
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Fax: +1 212 809 8838

Attention: Elton Bagley

email: lloyds@dfking.com

Any questions or requests for assistance or additional copies of this Exchange Offer Memorandum may be directed to the Exchange Agents and any questions regarding the terms of the Exchange Offer may be directed to the Lead Dealer Managers listed below.

THE DEALER MANAGERS**JOINT GLOBAL CO-ORDINATORS, LEAD DEALER MANAGERS AND JOINT STRUCTURING ADVISERS****BofA Merrill Lynch**

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Attention: Debt Advisory Services

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Attention: Liability Management Group

JOINT STRUCTURING ADVISOR**Lloyds Banking Group plc**

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United Kingdom

THE DEALER MANAGERS

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Attention: Liability Management Group

ECN PRINCIPAL PAYING AND CONVERSION AGENT

The Bank of New York Mellon

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ECN TRUSTEE

BNY Corporate Trustee Services Limited

One Canada Square
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ECN REGISTRAR

The Bank of New York Mellon (Luxembourg S.A.)

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*To the ECN Issuers, Lloyds TSB Bank and Lloyds Banking
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*To the Joint Global Co-ordinators, the
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ECN Trustee*

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