



This Prospectus comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Company, its subsidiaries and affiliates taken as a whole (the “Lloyds TSB Group”) and the Preference Shares which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company.

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

The Preference Shares are rated A by Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies Inc. (“Standard & Poor’s”) and Aa3 by Moody’s Investors Service Limited (“Moody’s”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

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

The distribution of this document and the offering or sale of the Preference Shares in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Company and the Managers to inform themselves about and to observe any such restriction. The Preference Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). Subject to certain exceptions, the Preference Shares may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. The Preference Shares are not eligible for sale under Rule 144A under the Securities Act. For a description of certain restrictions on offers and sales of the Preference Shares and on distribution of this document, see “Subscription and Sale”.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “pounds” and “sterling” are to pounds sterling.

In connection with the issue of the Preference Shares, Lehman Brothers International (Europe) (the “Stabilising Manager”) or any person acting on behalf of the Stabilising Manager may over-allot Preference Shares (provided that the aggregate liquidation preference of the Preference Shares allotted does not exceed 105 per cent. of the aggregate liquidation preference of the Preference Shares) or effect transactions with a view to supporting the market price of the Preference Shares at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Preference Shares is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Preference Shares and 60 days after the date of the allotment of the Preference Shares.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of the Company for the financial years ended 31 December 2004 and 2005, together with the audit reports thereon, and the unaudited consolidated interim financial statements of the Company for the six months ended 30 June 2006, which have been previously published and filed with the FSA and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Company at its principal office set out at the end of this Prospectus.

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## SUMMARY OF THE OFFERING

This summary must be read as an introduction to the Prospectus. Any decision to invest in any Preference Shares should be based on a consideration by an investor of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (each an “EEA State”), the Responsible Person may have civil liability in respect of this summary if it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Capitalised terms used in this section have the same meaning as set out in “Description of the Preference Shares”.

Issuer of the Preference Shares	Lloyds TSB Group plc.
The Offering	£600,000,000 Preference Shares of the Company, each with a nominal value of £0.25.
Issue Price	£1,000 per Preference Share.
Preference Share Dividends	<p>Non-cumulative preferential dividends will accrue on the Preference Shares at a rate of 6.369 per cent. per annum on a liquidation preference of £1,000 per Preference Share from (and including) the Issue Date to (but excluding) 25 August 2015, and will be payable semi-annually in equal instalments in arrear on 25 February and 25 August in each year.</p> <p>From (and including) 25 August 2015, non-cumulative preferential dividends will accrue on the Preference Shares at a rate, reset quarterly, of 1.28 per cent. per annum above the London interbank offered rate for three-month sterling deposits, and will be payable in quarterly instalments in arrear on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 25 February, 25 May, 25 August and 25 November in each year.</p> <p>Dividends are payable at the discretion of the Board of Directors or the Committee. Dividends will be paid only to the extent that payment of the same can be made out of profits of the Company available for distribution and permitted by law to be distributed as at each Dividend Payment Date. The Board of Directors or the Committee may in its discretion decide that a dividend will not be declared at all or will be declared only in part even when distributable profits are available for distribution.</p> <p>Notwithstanding the Board of Directors’ discretion to forego dividends as described above, dividends on the Preference Shares will be mandatorily payable on each Dividend Payment Date upon which (i) a Capital Disqualification Event has occurred and (ii) the Company is in compliance with its Applicable Regulatory Capital Requirements, subject always to the existence of sufficient distributable profits.</p> <p>If the Board of Directors or the Committee decides not to declare a dividend payable on a Dividend Payment Date or declares that it shall be payable only in part, then the rights of holders of the Preference Shares to receive the dividend in respect of the preceding Dividend Period will be lost either entirely or as to the part not declared, as applicable, and the Company will have no obligation in respect of the amount of dividend not declared either to pay the dividend accrued for such period or to pay interest thereon, whether or not dividends on the Preference Shares are declared for any future Dividend Period.</p> <p>Holders of the Preference Shares will rank as regards participation in the profits of the Company in priority to the payment of any dividend to the holders of any class of shares in the capital of the Company ranking junior to the Preference Shares and in such regard pari passu with the holders of any class of shares in issue or</p>

which may be issued which are expressed to rank equally with the Preference Shares in the capital of the Company and other Parity Securities.

#### Dividend Restriction

If the Company has not declared or paid in full a dividend stated to be payable on the Preference Shares as a result only of the exercise of the discretion of the Board of Directors or the Committee, then the Company shall not during the Stopper Period: (1) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares, or (2) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution, dividend or other payment is made, on any Junior Share Capital or the 2004 Preference Shares.

#### Redemption

The Preference Shares are perpetual securities and have no maturity date. However, (a) all but not some only of the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the FSA that it has no objection to the redemption (if required), on 25 August 2015 or any Dividend Payment Date thereafter at a price of £1,000 per Preference Share and (b) all but not some only of the Preference Shares are redeemable at the option of the Company at any time prior to 25 August 2015 if a Regulatory Event (as defined in "Description of the Preference Shares") occurs, subject to confirmation from the FSA that it has no objection to the redemption (if required), at the Make-Whole Redemption Price (as defined in "Description of the Preference Shares"), in each case as more fully described in "Description of the Preference Shares".

#### Rights upon Liquidation

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its articles of association (the "Articles") and under applicable law), holders of Preference Shares will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of the most senior class of preference shares and any other class of shares of the Company in issue or which may be issued by the Company which are expressed to rank equally with the Preference Shares and (2) in priority to the holders of any other share capital of the Company (including the Junior Share Capital). Subject to such ranking, in such event holders of the Preference Shares will be entitled to receive out of the surplus assets of the Company remaining after payment of the Company's prior-ranking liabilities a sum equal to the aggregate of: (1) £1,000 per Preference Share, (2) the amount of any dividend which is due for payment on the Preference Shares on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a period ending on or before such date and (3) the proportion of any dividend (whether or not declared or earned) that would otherwise be payable and is not otherwise paid in respect of any period that begins before, but ends after, the date of commencement of the winding-up or other return of capital and which is attributable to the part of the period that ends on such date.

#### Substitution

Subject to the Articles, the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection, the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities, at any time without any requirement for consent or approval of the holders of the Preference Shares. Upon such substitution, the proceeds of

redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

#### Voting Rights

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions as described in “Description of the Preference Shares – 9. Voting” on page 17 below.

#### Variation of Rights

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

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

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

#### Form

The Preference Shares will be issued in definitive registered form.

#### Yield

6.369 per cent.

#### Listing

London Stock Exchange.

#### Governing Law

Laws of Scotland.

#### Registrar and Paying Agent

The Company’s company secretarial department will maintain the register and the Company will act as Registrar and Paying Agent.

#### Ratings of the Preference Shares

The Preference Shares are rated A by Standard & Poor’s and Aa3 by Moody’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating organisation.

## RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Preference Shares. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Company, which, in turn, could have a material adverse effect on the amount of any distribution which investors will receive in respect of the Preference Shares. In addition, each of the risks highlighted below could adversely affect the trading price of the Preference Shares or the rights of investors under the Preference Shares and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Company faces. The Company has described only those risks relating to its operations that it considers to be material. There may be additional risks that it currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above. Capitalised terms used in this section have the same meaning as set out in “Description of the Preference Shares”.

### Risk Factors relating to Lloyds TSB Group

Set out below are certain risk factors which could affect Lloyds TSB Group’s future results and cause them to be materially different from expected results. Lloyds TSB Group’s results could also be affected by competition and other factors. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties Lloyds TSB Group’s businesses face.

***Lloyds TSB Group’s businesses are subject to inherent risks concerning borrower credit quality as well as general UK and international economic conditions. The development of adverse conditions in the UK or in other major economies could cause profitability to decline***

Lloyds TSB Group’s businesses are subject to inherent risks regarding borrower credit quality as well as general UK economic conditions. Each of these can change the level of demand for, and supply of, Lloyds TSB Group’s products and services. Changes in the credit quality of Lloyds TSB Group’s UK and/or international borrowers and counterparties could reduce the value of Lloyds TSB Group’s assets, and increase allowances for impairment losses. In addition, changes in economic conditions may result in a deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default. Furthermore, a general deterioration in the UK economy would also reduce Lloyds TSB Group’s profit from both its UK banking and financial services businesses. A general deterioration in any other major world economy could also adversely impact Lloyds TSB Group’s profitability.

***Lloyds TSB Group’s businesses are inherently subject to the risk of market fluctuations, which could reduce profitability***

Lloyds TSB Group’s businesses are inherently subject to the risk of market fluctuations. The most significant market risks Lloyds TSB Group faces are those that impact the Group’s pension schemes, principally equity risk and interest rate risk; adverse market movements would have an effect upon the financial condition of the pension schemes which would be reflected in Lloyds TSB Group’s financial statements. Interest rate risk and foreign exchange risk arises from banking activities while equity risk and interest rate risk is present in the insurance businesses.

***Lloyds TSB Group’s insurance businesses are subject to inherent risks relating to changing demographic developments, changing customer behaviour, adverse weather and similar contingencies outside its control. Development of adverse conditions could reduce profitability***

Lloyds TSB Group’s insurance businesses are subject to inherent risk relating to changing demographic developments (including mortality), changing customer behaviour, adverse weather and similar contingencies outside its control, both in the UK and overseas. Such contingencies can change the risk profile and profitability of such products and services.

***Adverse experience in the operations risks inherent in Lloyds TSB Group’s businesses could have a negative impact on its results of operations***

Operations risks are present in Lloyds TSB Group’s businesses. Lloyds TSB Group’s businesses are dependent on their ability to process accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Lloyds TSB Group’s systems and processes are designed to

ensure that the operations risks associated with its activities are appropriately controlled, but Lloyds TSB Group realises that any weakness in these systems could have a negative impact on its results of operations during the affected period.

***Terrorist acts and other acts of war could have a negative impact on the business and results of operations of Lloyds TSB Group***

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

***Lloyds TSB Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Any significant adverse regulatory developments or changes in government policy could have a negative impact on Lloyds TSB Group's results of operations***

Lloyds TSB Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of Lloyds TSB Group.

In addition, in the UK and elsewhere, there is continuing political and regulatory scrutiny of banking and, in particular, retail banking. In the UK, the Office of Fair Trading ("OFT") is carrying out several inquiries, which are referred to in "The Company and the Group – Recent Developments and other Matters".

In recent years there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of personal pensions and the sale of mortgage-related endowments. More recently the FSA has carried out industry-wide investigations into sales of contracted-out pensions and sales and terms of reviewable policies. New areas of industry risk may be identified, or the FSA may intervene in relation to the areas of industry risk already identified, which could adversely affect Lloyds TSB Group.

***Lloyds TSB Group is exposed to various forms of legal risk including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a negative impact on its results or its relations with its customers***

Some of these issues involve the possibility of alleged mis-selling of retail financial products. There is a risk that further provisions may be required as a result of these issues.

Lloyds TSB Group is exposed to many forms of legal risk, which may arise in a number of ways. Primarily:

- i) certain aspects of Lloyds TSB Group's business may be determined by the authorities, the Financial Ombudsman Service ("FOS") or the courts as not being conducted in accordance with applicable laws or, in the case of FOS, what is fair and reasonable in the Ombudsman's opinion;
- ii) contractual obligations may either not be enforceable as intended or may be enforced against Lloyds TSB Group in an adverse way;
- iii) the intellectual property of Lloyds TSB Group (such as its trade names) may not be adequately protected; and
- iv) Lloyds TSB Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, Lloyds TSB Group faces risk where legal proceedings or FOS complaints are brought against it. Regardless of whether or not such claims have merit, the outcome of such proceedings or complaints is inherently uncertain and if extended more broadly, could have a material adverse effect on Lloyds TSB Group's operations and /or financial conditions.

Although Lloyds TSB has policies for the management of legal risk, failure to manage legal risks could impact Lloyds TSB Group adversely, both financially and reputationally.

Tax risk is the risk associated with changes in, or errors in the interpretation of, taxation rates or law. This could result in increased charges or financial loss.

Although Lloyds TSB Group devotes considerable resources to managing tax risk, failure to manage this risk could impact Lloyds TSB Group adversely.

***Lloyds TSB Group's businesses are conducted in highly competitive environments. Creation of an appropriate return for shareholders depends upon management's ability to respond effectively to competitive pressures***

The market for UK financial services and the other markets within which Lloyds TSB Group operates are highly competitive, and management expects such competition to intensify in response to consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors, which could result in a reduction in profit margins. Lloyds TSB Group's ability to generate an appropriate return for its shareholders depends significantly upon the competitive environment and management's response to it.

***Lloyds TSB Group is devoting considerable time and resources to securing new customers and developing more business from existing customers. If Lloyds TSB Group is unsuccessful, its organic growth prospects will decline***

Lloyds TSB Group seeks to achieve further organic growth by securing new customers and developing more business from existing customers. Lloyds TSB Group is currently expending significant resources and effort to bring about this growth, particularly with respect to its UK retail financial services business. If these expenditures and efforts do not meet with success, its operating results would grow more slowly or decline.

***Lloyds TSB Group's strategic plans***

Lloyds TSB Group devotes considerable management and planning resources to developing strategic plans for organic growth and identifying possible acquisitions which would provide further opportunities for growth. If these strategic plans do not meet with success, Lloyds TSB Group's earnings could grow more slowly or decline.

Lloyds TSB Group's businesses are conducted in a marketplace that is consolidating and significant cross-border mergers and acquisitions may happen in the coming years. Lloyds TSB Group's ability to generate an appropriate return for its shareholders over the long-term may depend upon whether management is able to achieve value creating acquisitions and/or mergers at the appropriate times and prices. Lloyds TSB Group cannot be sure that it will ultimately be able to make such mergers or acquisitions or that if it does, such mergers or acquisitions will be integrated successfully or realise anticipated benefits.

Risk Factors relating to the Preference Shares

The Company believes that the following factors may affect its ability to fulfil its obligations under the Preference Shares. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Company believes may be material for the purpose of assessing the market risks associated with the Preference Shares are also described below.

The Company believes that the factors described below represent the principal risks inherent in investing in the Preference Shares, but the Company may be unable to pay dividends, principal or other amounts on or in connection with any of the Preference Shares for other reasons and the Company does not represent that the statements below regarding the risks of holding the Preference Shares are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

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

The terms of issues of securities of the Company ranking in priority to or pari passu with Preference Shares may contain similar provisions to the effect that if a dividend is not declared or paid in full or a coupon not paid then the Company will be subject to a restriction such that while the restriction is in effect, the Company may not pay dividends on, and/or redeem or purchase any of the Preference Shares, as the case may be.

***Dividends on the Preference Shares are discretionary and will not be declared or paid in full, or at all, if the Board of Directors so resolves in respect of the dividend for any Dividend Period***

The Board of Directors or the Committee may resolve, in its absolute discretion, on or before any Dividend Payment Date not to pay in full, or at all, the dividend on the Preference Shares for the Dividend Period to which that Dividend Payment Date relates.

The Company in any event may pay dividends on the Preference Shares only if and to the extent that payment can be made out of the profits of the Company available for distribution and permitted to be distributed and subject to compliance with the then existing capital adequacy requirements of the FSA.

***Dividends on the Preference Shares are non-cumulative***

The dividends on the Preference Shares are non-cumulative. Accordingly, to the extent that any dividend or part thereof is on any occasion not declared and paid for any reason, holders of Preference Shares will not have a claim in respect of the dividend accrued for the relevant Dividend Period or for interest on the dividend, whether or not dividends on the Preference Shares are declared for any future Dividend Period, though the Company will be subject to restrictions on dividends and redemption during the Stopper Period see “Description of the Preference Shares – 5. Restrictions on Dividends and Redemption”.

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

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

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

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

***Absence of voting rights***

Holders of Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of the Company and to speak or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the rights and restrictions attached to the Preference Shares or to wind-up, or in relation to the winding-up of, the Company (and then in each case only to speak and vote upon any such resolution) subject to the terms and conditions as described in “Description of the Preference Shares – 9. Voting” below.

***Perpetual securities***

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

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

Subject to confirmation from the FSA that it has no objection (if required) and to compliance with the United Kingdom company law requirements as to the manner of financing any redemption of redeemable shares, the Preference Shares may be redeemed at the option of the Company (a) in whole but not in part on any Dividend Payment Date falling on or after 25 August 2015 at a price of £1,000 and (b) in whole but not in part at any time prior to 25 August 2015 if a Regulatory Event (as defined in “Description of the Preference Shares”) occurs at a price equal to the Make-Whole Redemption Price (as defined in “Description of the Preference Shares”).

***Liquidity***

Although application has been made for the Preference Shares to be admitted to trading on the London Stock Exchange, there can be no assurance that an active public market for the Preference Shares will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Preference Shares can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Company and other factors that generally influence the market prices of securities.

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

Payments of dividends in respect of, and transfers of, Preference Shares may give rise to certain United Kingdom tax obligations. See “United Kingdom Taxation”. While under current United Kingdom tax law the Company may make payment of dividends free of withholding tax, if the law were to change, the Company would be under no obligation to pay any additional amounts. Generally, a transfer of (or agreement to transfer) Preference Shares is subject to United Kingdom stamp duty payable by the transferee at 0.5 per cent. of the consideration price.

## DESCRIPTION OF THE PREFERENCE SHARES

The following description of the terms and provisions of the Preference Shares does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Articles and the resolution adopted by a committee of the Directors passed on 8 August 2006 where the terms of, and rights attaching to, the Preference Shares are contained. The principal rights attaching to the Preference Shares are as summarised below. Defined terms used in this section have the meanings given to such terms under “Definitions” below, unless otherwise defined.

### 1 General

Each Preference Share will have a nominal value of £0.25 each and will be issued fully paid for cash. The Preference Shares constitute a class of preference share capital in the Company and will be issued in definitive registered form.

### 2 Dividends

- 2.1 Non-cumulative preferential dividends on the Preference Shares will accrue from the date the Company issues the Preference Shares. The Company will pay dividends when, as and if declared by the board of directors of the Company (the “Board of Directors”) or a duly authorised committee of the Board of Directors (the “Committee”). Subject to the discretions, limitations and qualifications set out herein, each Preference Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative preferential dividend (the “Preference Dividend”), in priority to the payment of any dividend to the holders of any class of Junior Share Capital and *pari passu* in such regard with the holders of any other class of non-cumulative preference shares in the capital of the Company or other Parity Securities.
- 2.2 In respect of the period from (and including) the Issue Date to (but excluding) 25 August 2015, the Preference Dividend shall accrue at a rate of 6.369 per cent. per annum on the liquidation preference in respect of each Preference Share outstanding payable, subject as provided below, semi-annually in equal instalments in arrear in sterling on 25 February and 25 August in each year when, as and if declared by the Board of Directors or the Committee. The first payment of the Preference Dividend will be made on 25 February 2007 in respect of the period from (and including) the Issue Date to (but excluding) 25 February 2007. For the purposes hereof, “liquidation preference” means, in relation to each Preference Share, an amount of £1,000. In respect of the period from (and including) the Issue Date to (but excluding) 25 August 2015, the amount of dividend accruing in respect of any Fixed Rate Calculation Period will be calculated on the basis of the Fixed Rate Day Count Fraction.
- 2.3 From (and including) 25 August 2015, the dividend on the Preference Shares shall accrue at a rate, reset quarterly, equal to the aggregate of 1.28 per cent. per annum and LIBOR in respect of the relevant Dividend Period on the liquidation preference in respect of each Preference Share outstanding which dividend will be payable in quarterly instalments in arrear in sterling on, subject (where applicable) to adjustment in accordance with the Modified Following Business Day Convention, 25 February, 25 May, 25 August and 25 November in each year (each, as adjusted in accordance with the Modified Following Business Day Convention, together with the payment dates specified in paragraph 2.2 above, a “Dividend Payment Date”) when, as and if declared by the Board of Directors or the Committee. The amount of dividend accruing in respect of any period commencing on or after 25 August 2015 will be calculated on the basis of the actual number of days elapsed in the relevant period divided by 365 or, if a leap year, 366 with the resultant figure rounded to the nearest £0.01 (£0.005 being rounded upwards). The Company shall, upon determining the rate at which the Preference Dividend will accrue pursuant to this paragraph 2.3, cause such rate and the amount payable in respect of the relevant Dividend Period on each Preference Share to be notified to holders of the Preference Shares in accordance with the Articles and (for so long as the Preference Shares are listed on such exchange) to the London Stock Exchange as soon as possible after determination of the rate, but in no event later than the fourth Business Day thereafter.

### 3 Declaration of Dividends

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are sufficient to cover the payment, in full, of dividends accrued on the Preference Shares

during the dividend period immediately preceding the relevant Dividend Payment Date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (including any arrears of dividends or other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), the Board of Directors or the Committee may:

- (a) declare and pay in full dividends on the Preference Shares on each Dividend Payment Date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to any Dividend Payment Date that no dividend shall be declared and paid on the Preference Shares or that a dividend on the Preference Shares shall be declared and paid only in part.

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

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

If, at least 10 Business Days prior to a Dividend Payment Date, the Board of Directors or the Committee considers that the distributable profits of the Company are insufficient to cover the payment in full of dividends on the Preference Shares and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Payment Date on any Parity Securities (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts), then, subject as provided above on the restrictions relating to the Company's capital adequacy requirements, the Board of Directors or the Committee may declare a reduced dividend on the Preference Shares. This will be paid in proportion to the dividends and other amounts which would have been due on the Preference Shares and any other shares and other instruments of the Company on such Dividend Payment Date which are expressed to rank equally with the Preference Shares as regards participation in profits (including any arrears of dividends and other amounts on any such Parity Securities which have rights to cumulative dividends or other amounts) if there had been sufficient profit.

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

#### 4 Payment of Dividends

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

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

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

If payment in respect of the Preference Shares into any such bank account is to be made on a Dividend Payment Date or Redemption Date which is not a Business Day, then payment of such

amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

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

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

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

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

#### 5 Restrictions on Dividends and Redemption

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

- (a) redeem, purchase, cancel, reduce or otherwise acquire in any other way any Junior Share Capital or the 2004 Preference Shares; or
- (b) declare, or pay or set aside any sum for payment of any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any Junior Share Capital or the 2004 Preference Shares.

#### 6 Rights upon Liquidation

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

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

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

## 7 Redemption

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), to the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may, at its option, redeem all but not some only of the Preference Shares on 25 August 2015, and on each Dividend Payment Date thereafter. The Redemption Price shall be paid on each Preference Share so redeemed.

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), to the provisions of the Companies Act and all other laws and regulations applying to the Company and to confirmation from the FSA that it has no objection to the redemption (if such confirmation is required, in which case the FSA may impose conditions on the redemption), the Company may at its option at any time prior to 25 August 2015 if a Regulatory Event occurs redeem all but not some only of the Preference Shares. The Make-Whole Redemption Price shall be paid on each Preference Share so redeemed. Prior to the publication of any notice of redemption pursuant to the foregoing, two Directors of the Company must sign a certificate confirming that a Regulatory Event has occurred.

If the Preference Shares are to be redeemed, the Company must give a written notice of redemption (a “Redemption Notice”) to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date and (ii) the Redemption Price (specifying the amount of the accrued but unpaid dividend to be paid) or, as the case may be, the Make-Whole Redemption Price. No defect in the Redemption Notice or in its service will affect the validity of the redemption proceedings.

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

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

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

## 8 Substitution

Subject to the Articles (including the restrictions described under “Restrictions on Dividends and Redemption” above), the provisions of the Companies Act and all other laws and regulations applying to the Company and to prior confirmation from the FSA that it has no objection (if such confirmation is required, in which case, the FSA may impose conditions on the redemption or substitution), the Company may substitute the Preference Shares in whole, but not in part, with Qualifying Non-Innovative Tier 1 Securities at any time (the date of such substitution being the “Substitution Date”) without any requirement for consent or approval of the holders of the Preference Shares.

Upon such substitution, the proceeds of redemption of the Preference Shares shall be mandatorily applied to the subscription or purchase of the Qualifying Non-Innovative Tier 1 Securities so issued.

The Company must give a written notice of substitution to the holders of the Preference Shares, not less than 30 days nor more than 60 days prior to the Substitution Date. Prior to the publication of any notice of substitution pursuant to the foregoing provisions, the Company must first deliver to the Registrar a certificate, which shall be available for inspection by holders of the Preference Shares, signed by two Directors, certifying that the securities to be offered in substitution for the Preference Shares are, and that an independent investment bank appointed by the Company for the purposes of making such assessment agrees that they are, Qualifying Non-Innovative Tier 1 Securities.

## 9 Voting

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

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

On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote for each £1 of nominal value of Preference Shares of which he or she is the holder.

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

## 10 Purchase of own shares

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

## 11 Untraced shareholders

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

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

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

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

## 12 Form and Denomination

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

The Preference Shares will be issued in definitive registered form. Title to the Preference Shares will pass by transfer and registration in the register of members of the Company in accordance with the Articles and applicable law.

Each registration of transfer of Preference Shares will be effected by entry on the register for the Preference Shares kept by the Company's registrar at its office in the UK. See "Registrar and Paying Agent" below. Any registration of transfer will be effected without charge to the person requesting the exchange or registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

## 13 Variation of Rights

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

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

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

## 14 Notices

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

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

A notice may be given by the Company to the extent permitted by the Companies Act and the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") by electronic communication, if so requested or authorised by the holder, the

holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

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

#### 15 No Additional Amounts

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

#### 16 Governing Law

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

#### 17 Registrar and Paying Agent

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

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

#### 18 Further Issues

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

#### 19 Definitions

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

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

"Business Day" means, in relation to payments, a day on which banks are open for business in London;

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

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

“Companies Act” means the Companies Act 1985 (as amended from time to time);

“Company” means Lloyds TSB Group plc;

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

“Distributable Profits” has the meaning given to it in the Companies Act as, in general terms and subject to adjustment, accumulated realised profits less accumulated realised losses;

“Dividend Determination Date” means, in relation to each Dividend Period commencing on or after 25 August 2015, the first day of such Dividend Period;

“Dividend Payment Date” means (i) 25 February and 25 August in each year up to and including 25 August 2015 and (ii) thereafter, subject to the Modified Following Business Day Convention, 25 February, 25 May, 25 August and 25 November in each year;

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

“Fixed Rate Calculation Period” means the period from (and including) the most recent Dividend Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date;

“Fixed Rate Day Count Fraction” means the actual number of days in the period from and including the date from which dividends begin to accrue for the relevant Fixed Rate Calculation period (the “Accrual Date”) to but excluding the date on which it falls due divided by two times the actual number of days from and including the Accrual Date to but excluding the next following Dividend Payment Date;

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

“Issue Date” means 25 August 2006;

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

“LIBOR” means, in relation to a Dividend Period, the offered rate for three month deposits in sterling as at 11.00 a.m. London time on the related Dividend Determination Date appearing on the display designated as page “LIBOR01” on the Reuters Service (or such other page or service as may replace it for the purpose of displaying such information) as determined by the Company;

“Make-Whole Redemption Price” means, in respect of each Preference Share, (a) £1,000 or, if higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated on the basis set out by the United Kingdom Debt Management Office in the paper Formulae for Calculating Gilt Prices for Yields page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8/6/1998 as amended or updated from time to time)) on such Preference Share, if it were to be purchased at such price on the third dealing day prior to the Redemption Date, would be equal to the gross redemption yield on such dealing day of £1,000 in principal amount of the Reference Bond plus 0.75 per cent. on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (London time) on such dealing day as determined by a leading investment or commercial bank appointed by the Company for such purpose, together in the case of (a) or (b) with any dividends on such Preference Share accrued since the immediately preceding Dividend Payment Date (or Issue Date if no Dividend Payment Date has occurred);

“Modified Following Business Day Convention” means if a Dividend Payment Date falls on a day which is not a Business Day, such Dividend Payment Date shall be postponed to the next day which is a Business Day unless it would fall into the next calendar month in which event such Dividend Payment Date shall be brought forward to the immediately preceding day which is a Business Day;

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

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

“Paying Agent” means the Company or any other entity appointed by it and notified by the Company to the holders of the Preference Shares to perform the function as paying agent in respect of the Preference Shares;

“Preference Shares” means the £600,000,000 in aggregate value of Fixed/Floating Rate Non-Cumulative Callable Preference Shares of the Company;

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

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

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

“Redemption Price” means the liquidation preference of £1,000 per Preference Share to be redeemed;

“Reference Bond” means in relation to any calculation of the Make-Whole Redemption Price, the United Kingdom’s 4.75 per cent. Treasury Stock due September 2015, or if such security is no longer in issue or is no longer used in pricing bonds with a maturity falling near 25 August 2015, such other United Kingdom government security as the Company may, with the advice of the Reference Dealers, determine to be appropriate for determining the Make-Whole Redemption Price;

“Reference Dealers” means three brokers of gilts and/or gilt-edged market makers selected by the Company, or such other three persons operating in the gilt-edged market as are selected by the Company;

“Regulatory Event” means a decision by the FSA that securities of the nature of, and including, the Preference Shares can no longer qualify as Non-Innovative Tier 1 Capital;

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

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

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

## USE OF PROCEEDS

The net proceeds of the issue of the Offering are estimated to amount to £595,300,000 and will be used for the development and expansion of the business of the Company and its subsidiaries and to strengthen further the capital base of the Company.

The Company estimates that the expenses in connection with the transaction are expected to amount to £4,700,000.

## THE COMPANY AND THE GROUP

All of the businesses of the Company are in or owned by Lloyds TSB Bank plc (“Lloyds TSB Bank”). The Company is the parent company of Lloyds TSB Bank plc. The Company was incorporated in Scotland on 21 October 1985 (registration number 95000). The principal legislation under which the Company operates is the Companies Act 1985 (as amended from time to time). The Company’s registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH, telephone number +44 20 7626 1500.

Clause 4 of the memorandum of association of the Company provides that its objects include the carrying on of all or any part of the business of a holding company, the carrying on of business as an investment holding company and the carrying on of the business of banking and the provision of financial services in each case in all their forms. The memorandum of association of the Company also grants the Company a range of corporate capabilities to effect these objects.

### History and development of Lloyds TSB Group

The history of Lloyds TSB Group can be traced back to the 18th century when the banking partnership of Taylor and Lloyds was established in the UK. The late 19th and early 20th century were marked by many acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1988 Lloyds TSB Bank acquired a majority shareholding in Abbey Life Group plc (renamed Lloyds Abbey Life plc (“LAL”)) in return for the sale to LAL of five of Lloyds TSB Bank’s businesses; and in 1995 the business of Cheltenham and Gloucester Building Society was acquired.

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

In 1995, TSB Group plc merged with Lloyds Bank, which subsequently changed its name to Lloyds TSB Bank. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank. In 1996, Lloyds TSB Group acquired the minority interest in LAL. In 2000, Lloyds TSB Group acquired Scottish Widows, for a total consideration of £5,947 million. In addition to being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

During the last three years, the Company has disposed of a number of its overseas operations, as part of the process of managing its portfolio of businesses to focus on its core markets. These disposals have resulted in a significant reduction in the size of the Company’s international business.

### Strategy of Lloyds TSB Group

The governing objective of Lloyds TSB Group is to maximise shareholder value over time. In an environment of increasing competition and empowered customers, Lloyds TSB Group believes that this shareholder value objective can best be achieved by:

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

Reflecting this, in 2003 the Company put in place a three-phase strategy. In phase 1, now completed, the Company focused on enhancing the quality of its earnings by exiting businesses which were not regarded as core or which added unnecessary volatility to its earnings. During this phase, the Company divested businesses in New Zealand and Latin America, markets in which it did not expect to be able to build and sustain competitive advantage. In phase 2, Lloyds TSB Group’s focus is on accelerating growth by deepening its customer franchises and improving its productivity and in the process building competitive advantage through enhancing its capabilities. This has already resulted in

improved earnings growth in the Company's core markets. In phase 3, the Company will look to leverage its financial strength and enhanced capabilities in new markets.

#### Markets

Lloyds TSB Group continues to focus on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, through a combination of organic growth and acquisitions, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to leadership.

#### Customer value

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

Lloyds TSB Group continues to develop new strategies to leverage the strength of its brands, its multi-channel distribution capability and its enhanced understanding of what its customers want to deliver greater value.

#### High performance organisation

Even the best strategies will fail to deliver shareholder value if poorly executed. Lloyds TSB Group has restructured its businesses and reinvigorated its governance and performance management processes to link plans and budgets much more closely to the highest value strategy for each business, to ensure maximum clarity and accountability for execution within all levels of its management team, and to link reward much more closely to performance.

Lloyds TSB Group measures value internally by economic profit growth, a measure of financial performance which signals unambiguously where value is being created or destroyed. It has developed a framework to be able to measure economic equity requirements across all its businesses, taking into account market, credit, insurance business and operational risk. Economic profit is measured by applying a charge for this economic equity to post-tax earnings. Using economic profit as a key performance measure enables the Group to understand which strategies, products, channels and customer segments are destroying value and which are creating the most value and to make better strategic choices as a result.

#### Businesses and Activities of Lloyds TSB Group

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

#### UK Retail Banking

UK Retail Banking provides banking, financial services, mortgages and private banking to some 15 million personal customers through Lloyds TSB Group's multi-channel distribution capabilities.

#### Branches

Lloyds TSB Group provides wide-reaching geographic branch coverage in England, Scotland and Wales, with over 2,100 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester as at the end of 2005.

#### Internet banking

Internet banking provides online banking facilities for personal customers. Some 3.7 million customers have registered to use Lloyds TSB Group's internet banking services. At the end of 2005, these customers were conducting more than 45 million transactions per month online, a 50 per cent. increase on 2004.

#### Telephone banking

Telephone banking continues to grow and Lloyds TSB Group provides one of the largest telephone banking services in Europe. At the end of 2005, some 4.2 million customers had registered to use the services of PhoneBank and the automated voice response service, PhoneBank Express. Lloyds TSB Group's telephone banking centres handled some 69 million calls during 2005.

#### Cash machines

Lloyds TSB Group has one of the largest cash machine networks of any leading banking group in the UK and, at 31 December 2005, personal customers of Lloyds TSB Bank and Lloyds TSB Scotland were able to withdraw cash and check balances through some 4,200 ATMs at branches and external locations around the country. In addition, our personal customers have access to a further 54,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

#### Current accounts

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

#### Savings accounts

Lloyds TSB Bank and Lloyds TSB Scotland offer a wide range of savings accounts and Cheltenham & Gloucester provide retail investments through their branch networks and a postal investment centre.

#### Personal loans

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

#### Credit cards

Lloyds TSB Group provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. Lloyds TSB Group is a member of both the VISA and MasterCard payment systems and has access to the American Express payment system. Lloyds TSB Group had a 12.4 per cent. share of outstanding UK credit card balances at 31 December 2005.

#### Mortgages

Cheltenham & Gloucester is Lloyds TSB Group's specialist residential mortgage provider, offering a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, C&G TeleDirect. Lloyds TSB Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. Lloyds TSB Group is one of the largest residential mortgage lenders in the UK on the basis of outstanding balances, with mortgages outstanding at 31 December 2005 of £88,000 million, representing a market share of 9.1 per cent.

#### UK Wealth Management

Private Banking provides a range of tailor-made wealth management services and products to individuals from 28 offices throughout the UK. In addition to asset management, these include tax and estate planning, executor and trustee services, deposit taking, lending and insurance. Shareview Dealing provides retail stockbroking services, personal equity plan and individual savings account (ISA) products.

#### Insurance and Investments

Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services.

#### Life assurance, pensions and investments

Scottish Widows is Lloyds TSB Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via the telephone and the internet. The Scottish Widows brand is the

main brand for new sales of Lloyds TSB Group's life, pensions, open ended investment companies and other long-term savings products.

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

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

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

#### General insurance

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

#### Scottish Widows Investment Partnership

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

#### Wholesale and International Banking

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

#### *Wholesale*

##### Corporate Markets

Combining the respective strengths of 2,700 people in Corporate Banking, Structured Finance and Financial Markets, plays an integral role in leveraging and expanding Lloyds TSB Group's customer franchise and building deep, long-lasting relationships with around 16,000 corporate customers.

Corporate Banking manages the core customer franchise, providing a relationship-based financial and advisory service to the corporate marketplace through dedicated regional teams throughout the UK and key strategic locations abroad, including New York. Customers have access to the Company's expertise and a broad range of financial solutions. The relationship managers act as a conduit to partners in Corporate Markets and other parts of the Company.

Structured Finance comprises the structured asset finance, leveraged lending and private equity, and other transactional lending and structuring businesses of Corporate Markets. Structured Finance executes transactions with existing corporate customers as well as introducing new to bank relationships to the franchise.

Financial Markets provides market access to sources of liquidity, hedging tools and investment products on behalf of Lloyds TSB Group and its customers. Financial Markets also provides risk management solutions to corporate customers and structured credit and investment products to the investor community.

##### Registrars

Lloyds TSB Registrars, part of the Corporate Bank, operates as receiving bank and registrar to some of the UK's leading public limited companies. As market leader, it currently maintains the share register of more than 700 clients, including around 60 per cent. of the FTSE 100, managing some 22 million shareholder accounts.

## Asset Finance

Lloyds TSB Group's asset finance businesses provide individuals and companies with finance through leasing, hire purchase and contract hire packages. Hire purchase, or instalment credit, is a form of consumer financing where a customer takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to the customer until the agreed number of instalments have been paid and the option to purchase has been exercised. Through its invoice discounting and factoring subsidiary, Lloyds TSB Commercial Finance, Lloyds TSB Group provides working capital finance for its customers. Specialist personal lending, store credit and the Dutton-Forshaw motor dealership group complete this group of businesses. Altogether Asset Finance has over 1.7 million individual customers and relationships with some 40,000 companies and small businesses.

## Business Banking

A growing business which has relationships with some 587,000 small businesses managed by business managers based in 500 locations throughout the UK. This has been reinforced by an additional 300 business managers moving back into branches. Lloyds TSB Group has a leading share of the new business start-up market, with some 100,000 new businesses opening an account with Lloyds TSB in 2005. The main activity of the Agricultural Mortgage Corporation is to provide long-term finance to the agricultural sector.

## *International Banking*

The Company has continued to shape its international network to support its UK operations.

### Offshore banking

Lloyds TSB Group's offshore banking operations comprise offices in the UK, the Channel Islands, the Isle of Man, Hong Kong, Singapore, Malaysia and overseas representative offices in the Middle East, Africa, Asia and the Americas. The business provides a wide range of retail banking, wealth management and expatriate services to local island residents, UK expatriates, foreign nationals and to other customers requiring offshore financial services.

### International private banking

Lloyds TSB Group has international private banking operations for wealthy individuals. The business is conducted through branches of Lloyds TSB Bank located in Switzerland, Luxembourg, Monaco, Gibraltar, Uruguay, Dubai and the US, supported by representative offices in Latin America.

### International corporate banking

Lloyds TSB Group serves the corporate and institutional market in Europe, the Middle East and Japan through offices in Belgium, France, the Netherlands, Spain, Dubai and Japan. Lloyds TSB Group continues to have offices in Ecuador and Uruguay which provide mainly corporate banking services. The sale of the business in Paraguay is expected to complete in 2006 after receipt of the required regulatory approval.

## Recent Developments and other Matters

On 2 August 2006 the Company announced its interim financial results. During the half-year to 30 June 2006, statutory profit before tax was £1,779 million, an increase of £66 million, or 4 per cent., compared to £1,713 million in the first half of 2005. Profit attributable to equity shareholders increased by £22 million, or 2 per cent., to £1,214 million.

To enable meaningful comparisons to be made with the first half of 2005, it is appropriate to exclude the impact of volatility. On this basis, profit before tax increased by £126 million, or 8 per cent., to £1,752 million. Revenue growth of 6 per cent. exceeded cost growth of 1 per cent. The post-tax return on average shareholders' equity was 24.0 per cent.

## *OFT statement and European Union inquiry*

In the UK, the OFT is carrying out several inquiries:

In April 2006, the OFT launched a market study on payment protection insurance, following a super complaint submitted by the Citizens' Advice Bureau in September 2005. The OFT has recently asked the industry to comment on certain issues it has identified and it expects to publish its report by the end of 2006.

In June 2006, the OFT withdrew its investigation into MasterCard and VISA credit card interchange fees in order to focus on a new inquiry. This will look jointly at MasterCard's and VISA's arrangements in the wider context of UK interchange fees on payment cards as a whole.

Following discussions with the industry, in April 2006 the OFT issued a statement on default charges in credit card contracts. In this the OFT stated that it would not challenge default charges set below £12. Lloyds TSB Group did not agree with the OFT's interpretation of the law, but in common with most other card issuers has reduced its credit card default charges to £12.

In addition to its comments on credit cards, the OFT statement also suggested the same principles should apply to some fees charged under some other consumer contracts such as those for store cards, mortgages and bank accounts. Lloyds TSB Group has informed the OFT that it strongly disagrees that those principles are applicable to bank account charges. It is expected that the OFT will soon begin a fact finding exercise with representatives of the banking industry to identify and clarify industry-wide practical and legal issues relevant to these fees. Lloyds TSB Group intends to co-operate in this exercise.

The Competition Commission inquiry in 2002 into the supply of banking services to SMEs, resulted in a number of banks, including Lloyds TSB Group, giving certain undertakings to the OFT. The OFT announced in January 2006 that it would be reviewing these undertakings. The OFT commenced that review in the second quarter of 2006 and anticipates that it will be completed by the end of 2006. Lloyds TSB Group will co-operate fully with that review.

There is a continuing market study by the OFT into payments systems, with the OFT chairing a Payments Systems Task Force. This was established in 2004 to look at competition issues relating to payments systems over a four year period. In December 2005, the OFT welcomed proposals for reducing the clearing times for electronic banking payments. Lloyds TSB Group will continue to co-operate with the Task Force.

In addition, in June 2005, the European Union announced an inquiry into retail banking. The inquiry will cover the 25 member states of the European Union and will be executed in a phased approach. The inquiry is focusing on payment cards, retail banking (including SME banking) and business insurance in Europe generally. Lloyds TSB Group is co-operating with the inquiry and the outcome is unclear, although the European Commission has recently published a preliminary report on payment cards for consultation.

These investigations and any connected matters are likely to affect the industry and have an impact on Lloyds TSB Group's business. Lloyds TSB Group is considering actions to mitigate any financial impact. The net effect from a product and cost/income perspective is currently under consideration, however Lloyds TSB Group is presently unable to quantify with any reasonable certainty the aggregate cost or income implications in relation to the above.

Directors

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

Name	Principal outside activities
Sir Victor Blank Chairman	Chairman of GUS and a member of the Financial Reporting Council and the Council of Oxford University. Chairs two charities, Wellbeing of Women and UJS Hillel, as well as the Council of University College School
Executive directors	
J. Eric Daniels Group Chief Executive	
Michael E. Fairey Deputy Group Chief Executive	Chairman and President of The British Quality Foundation
Terri A. Dial Group Executive Director, UK Retail Banking	A non-executive director of LookSmart Corporation and Onyx Software

Name	Principal outside activities
Archie G. Kane Group Executive Director, Insurance and Investments	A member of the board of the Association of British Insurers
G. Truett Tate Group Executive Director, Wholesale & International Banking	
Helen A. Weir Group Finance Director	A non-executive director of Royal Mail Holdings and a member of the Accounting Standards Board
Non-executive directors	
Wolfgang C. G. Berndt	A non-executive director of Cadbury-Schweppes, GfK AF and Telekom Austria and a board member of the Institute for the Future
Ewan Brown CBE FRSE	A non-executive director of Noble Grossart and Stagecoach Group
Jan P. du Plessis	Chairman of British American Tobacco and RHM
Gavin J. N. Gemmell CBE	A non-executive director of Archangel Informal Investment and tie Limited and chairman of the court of Heriot-Watt University
Sir Julian Horn-Smith	A non-executive director of Smiths Group and chairman of The Sage Group
DeAnne S. Julius CBE	Chairman of the Royal Institute of International Affairs and a non-executive director of BP, Serco Group and Roche Holdings SA
Angela A. Knight	Chief Executive of the Association of Private Client Investment Managers and Stockbrokers, and a non-executive director of LogicaCMG and the Port of London Authority
Lord Leitch	Chairman of HM Treasury's Review of Skills and the National Employment Panel and deputy chairman of the Commonwealth Education Fund. A non-executive director of United Business Media and BUPA

On 3 August 2006 the Company announced that Angela Knight will become Chief Executive of the British Bankers' Association in 2007. As a result, she will leave the Board of Directors and the board of directors of Scottish Widows on 31 October 2006.

None of the directors of the Company have any conflict between their duties to the Company and their other principal activities as listed above.

#### Audit Committee

The audit committee comprises Mr Brown (chairman), Mr du Plessis, Mr Gemmell, Mrs Knight and Lord Leitch. The committee's terms of reference are available from the company secretary and are displayed on the Company's website [www.lloydstsb.com](http://www.lloydstsb.com).

During the year, the audit committee received reports from, and held discussions with, management and the auditors. In discharging its duties, the committee has approved the auditors' terms of engagement, including their remuneration and, in discussion with them, has assessed their independence and objectivity (more information about which is given in note 10 of the Company's 2005 Annual Report and Accounts, in relation to the procedure for approving fees for audit and non-audit work) and recommended their re-appointment at the annual general meeting. The committee also reviewed the financial statements published in the name of the Board of Directors and the quality and acceptability of the related accounting policies, practices and financial reporting

disclosures; the scope of the work of Lloyds TSB Group's internal audit department, reports from that department and the adequacy of its resources; the effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations; the results of the external audit and its cost effectiveness; reports from the external auditors on audit planning and their findings on accounting and internal control systems; and the committee's own role and performance. Procedures for handling complaints regarding accounting, internal accounting controls or auditing matters and for staff to raise concerns in confidence were established by the committee. The committee also had a meeting with the auditors, without executives present, and a meeting with the head of internal audit alone.

#### Compliance with the combined code

The Board of Directors considers that good governance is central to achieving Lloyds TSB Group's governing objective of maximising shareholder value over time. That has been uppermost in Directors' minds when applying the principles contained in the combined code on corporate governance issued by the Financial Reporting Council. Lloyds TSB Group has complied with the provisions of the code, and, except as set out below, has done so throughout the year regarding the code provisions whose requirements are of a continuing nature.

In deciding to nominate Sir Victor Blank as Chairman, the Board considered the provision of the combined code on corporate governance, issued by the Financial Reporting Council, that no individual should be appointed to a second chairmanship of a FTSE 100 company. The Board concluded that Sir Victor was an outstanding candidate with exceptional skills, knowledge and experience, both as a FTSE 100 company chairman and in the financial services industry, and in consultation with him, both the Lloyds TSB Board and the GUS plc Board, of whom Sir Victor is also the chairman, have agreed that he would be able to devote sufficient time to his roles.

Lloyds TSB Group acknowledges Sir Victor's responsibilities as chairman of two FTSE 100 companies for a transitional period but the Board feels that his experience will enable him to discharge his duties fully during that time. The senior independent non-executive director, Ewan Brown, also recognises the importance of his role in being available to shareholders, especially during this transitional period.

Both the Association of British Insurers and the National Association of Pension Funds have been consulted, in line with the principles of the combined code.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY

The financial information as at 31 December 2005 and 2004 and for each of the years then ended set out on pages 32 to 34 has been extracted without material adjustment from the audited consolidated financial statements of the Company for the year ended 31 December 2005.

The statutory consolidated financial statements have been placed on display at the offices of Lloyds TSB Group plc, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH for the life of the issue. The consolidated annual financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. PricewaterhouseCoopers LLP is a firm of chartered accountants and registered auditors.

The financial information as at 30 June 2006, 30 June 2005 and 31 December 2005 and for each of the six month periods then ended set out on pages 35 to 37 has been extracted without material adjustment from the unaudited consolidated interim financial statements of the Company for the six months ended 30 June 2006.

The 2005 and 2006 financial information (including the 2004 comparative figures) has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). The accounting policies that the Directors have applied to the preparation of the first annual IFRS financial statements for the year ended 31 December 2005 are set out in note 1, on pages 64 to 69, of the Company's 2005 Annual Report and Accounts and, except as described on page 29 of the Company's interim financial statements for the six months ended 30 June 2006, the same accounting policies were used to prepare the 2006 financial information.

Summary Annual Consolidated Income Statement of the Company

	For the year ended 31 December	
	2005	2004
	(£ million)	
Interest and similar income	12,589	10,707
Interest and similar expense	(6,918)	(5,597)
Net interest income	5,671	5,110
Fees and commission income	2,990	3,054
Fees and commission expense	(842)	(844)
Net fees and commission income	2,148	2,210
Net trading income	9,298	5,036
Insurance premium income	4,469	6,070
Other operating income	1,140	857
Other income	17,055	14,173
Total income	22,726	19,283
Insurance claims	(12,186)	(9,622)
Total income, net of insurance claims	10,540	9,661
Operating expenses	(5,471)	(5,297)
Trading surplus	5,069	4,364
Impairment losses on loans and advances	(1,299)	(866)
Profit (loss) on sale and closure of businesses	50	(21)
Profit before tax	3,820	3,477
Taxation	(1,265)	(1,018)
Profit for the year	2,555	2,459
Profit attributable to minority interests	62	67
Profit attributable to equity shareholders	2,493	2,392
Profit for the year	2,555	2,459
Basic earnings per share	44.6p	42.8p
Diluted earnings per share	44.2p	42.5p

Summary Annual Consolidated Balance Sheet of the Company

	At 31 December	
	2005	2004
	(£ million)	
<b>Assets</b>		
Cash and balances at central banks	1,156	1,078
Items in the course of collection from banks	1,310	1,462
Treasury bills and other eligible bills		92
Trading securities and other financial assets at fair value through profit or loss	60,374	
Derivative financial instruments	5,878	
Loans and advances to banks	31,655	31,848
Loans and advances to customers	174,944	155,318
Debt securities		43,485
Equity shares		27,310
Available-for-sale financial assets	14,940	
Investment property	4,260	3,776
Goodwill	2,373	2,469
Value of in-force business	2,922	4,363
Other intangible assets	50	28
Tangible fixed assets	4,291	4,180
Other assets	5,601	9,013
<b>Total assets</b>	<b>309,754</b>	<b>284,422</b>
<b>Equity and liabilities</b>		
<b>Liabilities</b>		
Deposits from banks	31,527	39,723
Customer accounts	131,070	119,811
Items in course of transmission to banks	658	631
Derivative financial instruments and other trading liabilities	6,396	
Debt securities in issue	39,346	28,770
Liabilities arising from insurance contracts and participating investment contracts	40,550	52,289
Liabilities arising from non-participating investment contracts	21,839	
Unallocated surplus within insurance businesses	518	1,362
Other liabilities	9,843	14,457
Retirement benefit obligations	2,910	3,075
Current tax liabilities	552	459
Deferred tax liabilities	1,145	1,704
Other provisions	368	211
<b>Subordinated liabilities</b>	<b>12,402</b>	<b>10,252</b>
<b>Total liabilities</b>	<b>299,124</b>	<b>272,744</b>
<b>Equity</b>		
Share capital	1,420	1,419
Share premium account	1,170	1,145
Other reserves	383	343
Retained profits	7,222	8,140
<b>Shareholders' equity</b>	<b>10,195</b>	<b>11,047</b>
Minority interests	435	631
<b>Total equity</b>	<b>10,630</b>	<b>11,678</b>
<b>Total equity and liabilities</b>	<b>309,754</b>	<b>284,422</b>

## Summary Annual Consolidated Cash Flow Statement of the Company

	For the year ended 31 December	
	2005	2004
	(£ million)	
Net cash (used in) provided by operating activities	(331)	12,214
Cash flows from investing activities:		
Purchase of fixed asset investments		(10,088)
Proceeds from sale and maturity of fixed asset investments		9,732
Purchase of available-for-sale financial assets	(10,108)	
Proceeds from sale and maturity of available-for-sale financial assets	10,266	
Purchase of fixed assets	(1,843)	(1,565)
Proceeds from sale of fixed assets	1,073	698
Acquisition of businesses, net of cash acquired	(27)	(16)
Disposal of businesses, net of cash disposed	(4)	(25)
Net cash used in investing activities	(643)	(1,264)
Cash flows from financing activities:		
Dividends paid to equity shareholders	(1,914)	(1,913)
Dividends paid to minority interests	(37)	(68)
Proceeds from issue of subordinated liabilities	1,361	699
Proceeds from issue of ordinary shares and transactions in own shares held in respect of employee share schemes	26	11
Repayment of subordinated liabilities (loan capital)	(232)	(764)
Capital element of finance lease rental payments	(2)	(1)
Change in minority investment in subsidiaries	329	(151)
Net cash used in financing activities	(469)	(2,187)
Change in cash and cash equivalents	(1,443)	8,763
Cash and cash equivalents at beginning of year	28,196	19,433
Cash and cash equivalents at end of year	26,753	28,196

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

The following information is extracted from the interim consolidated financial statements of the Company for the six months ended 30 June 2006 and has not been audited.

Consolidated Interim Income Statement – Statutory (unaudited)

	30 June 2006	Half-year to 30 June 2005 <sup>(1)</sup>	31 December 2005
	(£ million)		
Interest and similar income	6,756	6,040	6,549
Interest and similar expense	(3,962)	(3,289)	(3,629)
Net interest income	2,794	2,751	2,920
Fees and commission income	1,518	1,474	1,516
Fees and commission expense	(430)	(397)	(445)
Net fees and commission income	1,088	1,077	1,071
Net trading income	1,194	3,536	5,762
Insurance premium income	2,329	2,210	2,259
Other operating income	423	556	584
Other income	5,034	7,379	9,676
Total income	7,828	10,130	12,596
Insurance claims	(2,639)	(5,168)	(7,018)
Total income, net of insurance claims	5,189	4,962	5,578
Operating expenses	(2,610)	(2,583)	(2,888)
Trading surplus	2,579	2,379	2,690
Impairment losses on loans and advances	(800)	(666)	(633)
Profit on sale and closure of businesses	—	—	50
Profit before tax	1,779	1,713	2,107
Taxation	(543)	(509)	(756)
Profit for the period	1,236	1,204	1,351
Profit attributable to minority interests	22	12	50
Profit attributable to equity shareholders	1,214	1,192	1,301
Profit for the period	1,236	1,204	1,351
Basic earnings per share	21.7p	21.3p	23.3p
Diluted earnings per share	21.5p	21.1p	23.1p
Dividend per share for the period <sup>(2)</sup>	10.7p	10.7p	23.5p
Dividend for the period <sup>(2)</sup>	£602m	£599m	£1,316m

Notes:

(1) Restated.

(2) The dividend for the half-year to 30 June 2006 represents the interim dividend for 2006 which will be paid and accounted for on 4 October 2006 (the dividends shown for the half-year to 30 June 2005 and the half-year to 31 December 2005 represent the interim and final dividends for 2005 which were paid and accounted for on 5 October 2005 and 3 May 2006 respectively)

Consolidated Interim Balance Sheet – Statutory (unaudited)

	30 June 2006	30 June 2005 <sup>(1)</sup>	31 December 2005
	(£ million)		
<b>Assets</b>			
Cash and balances at central banks	1,294	943	1,156
Items in course of collection from banks	1,814	1,716	1,310
Trading securities and other financial assets at fair value through profit or loss	60,803	57,350	60,374
Derivative financial instruments	5,032	10,438	5,878
Loans and advances to banks	34,927	36,090	31,655
Loans and advances to customers	182,157	167,583	174,944
Available-for-sale financial assets	20,221	13,693	14,940
Investment property	4,856	3,906	4,260
Goodwill	2,377	2,472	2,373
Value of in-force business	2,929	2,923	2,922
Other intangible assets	50	25	50
Tangible fixed assets	4,281	4,185	4,291
Other assets	5,026	4,782	5,601
<b>Total assets</b>	<b>325,767</b>	<b>306,106</b>	<b>309,754</b>
<b>Equity and liabilities</b>			
Deposits from banks	39,466	33,946	31,527
Customer accounts	136,465	130,550	131,070
Items in course of transmission to banks	707	725	658
Derivative financial instruments, trading and other liabilities at fair value through profit or loss	7,611	10,467	6,396
Debt securities in issue	39,703	35,810	39,346
Liabilities arising from insurance contracts and participating investment contracts	40,215	37,594	40,550
Liabilities arising from non-participating investment contracts	22,489	19,049	21,839
Unallocated surplus within insurance businesses	573	524	518
Other liabilities	11,360	10,741	9,843
Retirement benefit obligations	2,799	3,010	2,910
Current tax liabilities	449	396	552
Deferred tax liabilities	1,337	1,169	1,145
Other provisions	307	315	368
Subordinated liabilities	11,693	12,067	12,402
<b>Total liabilities</b>	<b>315,174</b>	<b>296,363</b>	<b>299,124</b>
<b>Equity</b>			
Share capital	1,427	1,420	1,420
Share premium account	1,243	1,162	1,170
Other reserves	397	372	383
Retained profits	7,090	6,438	7,222
<b>Shareholders' equity</b>	<b>10,157</b>	<b>9,392</b>	<b>10,195</b>
Minority interests	436	351	435
<b>Total equity</b>	<b>10,593</b>	<b>9,743</b>	<b>10,630</b>
<b>Total equity and liabilities</b>	<b>325,767</b>	<b>306,106</b>	<b>309,754</b>

Note:

(1) Restated.

Condensed Consolidated Interim Cash Flow Statement – Statutory (unaudited)

	30 June 2006	Half-year to 30 June 2005 (£ million)	31 December 2005
Net cash provided by (used in) operating activities	7,364	6,428	(6,739)
Cash flows from investing activities			
Purchase of available-for-sale financial assets	(12,306)	(4,528)	(5,580)
Proceeds from sale and maturity of available-for-sale financial assets	6,661	5,859	4,407
Purchase of fixed assets	(723)	(645)	(1,198)
Proceeds from sale of fixed assets	170	360	713
Acquisition of businesses, net of cash acquired	(20)	(23)	(4)
Disposal of businesses, net of cash disposed	936	—	(4)
Net cash (used in) generated by investing activities	(5,282)	1,023	(1,666)
Cash flows from financing activities			
Dividends paid to equity shareholders	(1,316)	(1,315)	(599)
Dividends paid to minority interests	(17)	(16)	(21)
Proceeds from issue of subordinated liabilities	—	802	559
Proceeds from issue of ordinary shares and transactions in own shares held in respect of employee share schemes	80	18	8
Repayment of subordinated liabilities (loan capital)	(250)	—	(232)
Capital element of finance lease rental payments	—	—	(2)
Change in minority investment in subsidiaries	—	274	55
Net cash used in financing activities	(1,503)	(237)	(232)
Effects of exchange rate changes on cash and cash equivalents	(39)	(56)	36
Change in cash and cash equivalents	540	7,158	(8,601)
Cash and cash equivalents at beginning of period	26,753	28,196	35,354
Cash and cash equivalents at end of period	27,293	35,354	26,753

Cash and cash equivalents comprise cash and balances at central banks (excluding mandatory deposits) and amounts due from banks with a maturity of less than three months.

## ISSUED SHARE CAPITAL OF THE COMPANY

The following table shows the issued share capital of the Company as at the date set forth below

	As at 31 December 2005 (£ millions)
Issued and fully paid Share capital	
Ordinary Shares (of £0.25 each, fully paid)	1,400
Limited voting ordinary shares (of £0.25 each)	20
	<hr/>
Allotted, called up and fully paid share capital	<u>1,420</u>

The limited voting ordinary shares are held by the Lloyds TSB Foundations. These shares carry no rights to dividends but rank pari passu with the Ordinary Shares in respect of other distributions and in the event of winding up. These shares do not have any right to vote at general meetings other than on resolutions concerning acquisitions or disposals of such importance that they require shareholder consent, or for the winding up of the Company, or for a variation in the class rights of the limited voting ordinary shares. The Company has entered into deeds of covenant with the Lloyds TSB Foundations, under the terms of which the Company makes annual donations to the foundations equal, in total, to 1 per cent. of Lloyds TSB Group's pre-tax profits (after certain adjustments) averaged over three years. The deeds of covenant can be cancelled by the Company at nine years' notice.

During 2004 the Directors of the Company approved the allotment at par of 400 6 per cent. non-cumulative redeemable preference shares of £0.25 each. The shares, which are redeemable at the option of the Company at any time, carry the rights to a fixed rate non-cumulative preferential dividend at a rate of 6 per cent. per annum; no dividend shall be payable in the event that the Directors determine that prudent capital ratios would not be maintained if the dividend were paid. Upon winding up, the shares rank equally with any other preference shares issued by the Company. With effect from 1 January 2005, following the implementation of International Accounting Standard 39, these instruments have been reclassified as debt.

## UNITED KINGDOM TAXATION

The following is a summary of the current United Kingdom taxation treatment of the Preference Shares. It is not exhaustive. It relates only to the position of persons who are the absolute beneficial owners of the Preference Shares and may not apply to certain classes of holders, such as dealers in securities. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

### Taxation of dividends

The Company will not be required to withhold tax at source when paying a dividend.

Individual holders of Preference Shares who are resident in the UK for tax purposes and who receive a dividend from the Company will generally be entitled to a tax credit (the "Tax Credit") (which may be set off against such holder's total income tax liability on the dividend) equal to 1/9th of the amount of the cash dividend (or 1/10th of the aggregate of the cash dividend and the Tax Credit (the "Gross Dividend")).

Individual holders of Preference Shares who are liable to UK income tax, other than at the higher rate, will be liable to tax on the Gross Dividend at the rate of 10 per cent. The Tax Credit will satisfy the whole of such holders' income tax liability in respect of the dividend. Individual holders of Preference Shares who are not liable to income tax in the UK in respect of the Gross Dividend will not be entitled to repayment of the Tax Credit.

Individual holders of Preference Shares who are liable to UK income tax at the higher rate will be liable to tax on the Gross Dividend at the rate of 32.5 per cent. After taking into account the 10 per cent. Tax Credit, such individuals will be liable to pay additional UK income tax at the rate of 22.5 per cent. of the Gross Dividend. Individuals who are higher rate taxpayers will therefore pay UK income tax at an effective tax rate of 25 per cent. of the cash dividend received.

Corporate holders of Preference Shares (other than share dealers) will not normally be liable to UK corporation tax on any dividend received from the Company.

Holders of Preference Shares who are resident outside the UK for tax purposes will not generally be able to claim repayment of any part of the Tax Credit attaching to dividends paid by the Company, although this will depend on the existence and terms of any double tax treaty between the UK and the country in which the holder of Preference Shares is resident for tax purposes.

### Taxation of capital gains

The sale, or other disposal, of Preference Shares may give rise to the realisation of a gain for the purposes of UK taxation of chargeable gains.

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

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

A holder of Preference Shares who is not resident in the UK for tax purposes and who carries on a trade in the UK through a branch or agency, or, in the case of a company, a permanent establishment, may be subject to UK capital gains tax or corporation tax on a disposal of Preference Shares which are used, held or acquired for the purposes of the branch, agency or permanent establishment, subject to any available exemption or relief. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the UK.

### Stamp duty and stamp duty reserve tax ("SDRT")

#### *Issue of the Preference Shares*

Provided that the Preference Shares are not issued (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, no stamp duty or SDRT should be payable on the issue of the Preference Shares.

*Agreements to transfer, and transfers of, the Preference Shares*

Any subsequent transfer on sale of a Preference Share will be liable to ad valorem stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the consideration paid. UK stamp duty is normally the liability of a purchaser or transferee of the Preference Shares.

An unconditional agreement to transfer a Preference Share will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such Preference Share, but the liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement to transfer having become unconditional. SDRT is normally the liability of the purchaser or transferee of the Preference Shares.

If the Preference Shares are transferred (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable, or in certain circumstances, the value of the Preference Shares so transferred.

## SUBSCRIPTION AND SALE

Capitalised terms used in this section have the same meaning as set out in “Description of the Preference Shares”

### Subscription Agreement

Under a Subscription Agreement entered into on 22 August 2006 between the Company, Lehman Brothers International (Europe) and UBS Limited (the “Joint Lead Managers”) and Goldman Sachs International and Lloyds TSB Bank plc (each, a “Manager” and together with the Joint Lead Managers, the “Managers”), the Managers have agreed to procure subscribers for the Preference Shares at the issue price of £1,000 per Preference Share. The Managers will receive a combined selling and management commission of 0.75 per cent. of the aggregate principal amount of the Preference Shares. The Subscription Agreement is subject to termination in certain circumstances prior to payment to the Company.

### Selling Restrictions

#### *United States of America*

The Preference Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Preference Shares (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering of the Preference Shares and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Preference Shares during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of Preference Shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulations.

In addition, until 40 days after the commencement of the offering of the Preference Shares, an offer or sale of Preference Shares within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

#### *United Kingdom*

Each Manager represents, warrants and agrees that:

- (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Preference Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Preferences Shares in, from or otherwise involving the United Kingdom.

### European Economic Area

In relation to each member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Manager has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of Preference Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to such offer which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Preference Shares to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Preference Shares shall result in a requirement for the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of the Preference Shares to the public” in relation to any Preference Shares in any Relevant Member State means a communication to persons in any form and by any means presenting sufficient information on the terms of the offer and the Preference Shares to be offered, so as to enable an investor to decide to purchase or subscribe the Preference Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

#### General

No action has been or will be taken in any country or any jurisdiction (except the United Kingdom) by any Manager that would permit a public offering of the Preference Shares, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Preference Shares, in any country or jurisdiction where action for that purpose is required. Each Manager has represented and agreed that it will, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers the Preference Shares or has in its possession or distributes the Prospectus or any other offering material and neither the Company nor any other Manager shall have responsibility therefor.

## GENERAL INFORMATION

- 1 The listing of the Preference Shares on the Official List will be expressed as a percentage of their liquidation preference (exclusive of accrued interest). It is expected that listing of the Preference Shares on the Official List and admission of the Preference Shares to trading on the London Stock Exchange's market for listed securities will be granted on or about 25 August 2006, subject only to the issue of the Preference Shares. 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.
- 2 The Company has obtained all necessary consents, approval and authorisations in the United Kingdom in connection with the issue and performance of the Preference Shares. The issue of the Preference Shares was authorised by a resolution of the General Executive Committee of the Board of Directors passed on 8 August 2006 and by a resolution of the Board of Directors passed on 23 February 2006.
- 3 There has been no significant change in the financial or trading position of the Company or Lloyds TSB Group since 30 June 2006, the date of the last interim financial information and no material adverse change in the prospects of the Company or Lloyds TSB Group since 31 December 2005, the date of its last published audited financial statements.
- 4 Save as disclosed in "The Company and the Group – Recent Developments and other Matters" on pages 27 to 28 of this Prospectus regarding various enquiries by the OFT and the possible impact they may have on Lloyds TSB Group's business, neither the Company nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past a significant effect on its financial position or profitability.
- 5 For so long as Preference Shares have not been redeemed, the following documents will be available, during usual hours on any weekday (Saturday and public holidays excepted), for inspection at the office of Lloyds TSB Group plc, Henry Duncan House, 120 George Street, Edinburgh EH2 4LH:
  - 5.1 the Memorandum and Articles of the Company;
  - 5.2 the audited consolidated reports and financial statements of the Company for the two financial years ended 31 December 2004 and 31 December 2005 and the unaudited consolidated interim financial statement for the six months ended 30 June 2006;
  - 5.3 a copy of this Prospectus together with any supplemental Prospectus or further Prospectus.The Prospectus for the Preference Shares that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).
- 6 The International Securities Identification Number (ISIN) for the Preference Shares is GB00B1BQH919.
- 7 PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, (member of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Company and its subsidiaries, for the two financial years ended 31 December 2004 and 31 December 2005.
- 8 No optional redemption of the Preference Shares pursuant to "Description of the Preference Shares – 7. Redemption" will be made by the Company without prior confirmation from the FSA that it has no objection to such optional redemption, as may for the time being be required therefor.

