

Lloyds Banking Group plc
Form F-4
March 06, 2014

As filed with the Securities and Exchange Commission on March 6, 2014

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Lloyds Banking Group plc

(Exact Name of Registrant as Specified in Its Charter)

Scotland

(State or Other Jurisdiction of Incorporation or Organization)

6029

(Primary Standard Industrial Classification Code Number)

Not Applicable

(I.R.S. Employer Identification No.)

25 Gresham Street
London EC2V 7HN
011-44-207-626-1500

(Address and Telephone Number of Registrant's Principal Executive Offices)

Kevin P. McKendry
Chief U.S. Counsel
Lloyds Bank plc
1095 Avenue of the Americas
New York, New York 10036
212-930-8920

(Name, Address and Telephone Number of Agent for Service)

Please send copies of all communications to:

John W. Banes
DAVIS POLK & WARDWELL LONDON LLP
99 Gresham Street
London EC2V 7NG
Tel. No.: 011-44-207-418-1300

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Fixed Rate Reset Additional Tier 1 Securities (the "Additional Tier 1 Securities")	8,375	100%	\$1,675,000,000	\$215,740
Ordinary Shares of Lloyds Banking Group plc(3)	(4)			(5)

(1) The securities being registered hereby are offered in exchange for the securities described in this prospectus. The registration fee has been computed based on the face value of the securities pursuant to Rule 457 under the Securities Act.

(2) Calculated using a registration fee rate of \$128.80 per million. \$215,030.32 of the total registration fee is being paid in connection with the filing of Schedule TO on March 6, 2014.

TABLE OF CONTENTS

- (3) The Ordinary Shares of Lloyds Banking Group plc are being registered in connection with the registration of the securities being registered hereby. American Depositary Shares issuable upon deposit of the Ordinary Shares registered hereby have been registered under a separate Registration Statement on Form F-6 (Registration Statement No. 333-164429).
- (4) Plus such additional indeterminate number of Ordinary Shares as may become issuable upon conversion of the Additional Tier 1 Securities by reason of an adjustment of the Conversion Price resulting from the anti-dilution provisions of the Additional Tier 1 Securities, pursuant to Rule 416 under the Securities Act.
- (5) Pursuant to Rule 457(i) of the Securities Act, no registration fee is required to be paid with respect to the Ordinary Shares issuable in respect of the conversion of the Additional Tier 1 Securities because no additional consideration will be received in connection with the Automatic Conversion.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF CONTENTS

The information in this prospectus may change. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer is not permitted.

PRELIMINARY PROSPECTUS, DATED MARCH 6, 2014

LBG Capital No. 1 plc
LBG Capital No. 2 plc

Offer to Exchange

LBG Capital No. 1 plc and LBG Capital No. 2 plc are offering to exchange up to \$1,675,000,000 Fixed Rate Reset Additional Tier 1 Securities issued by Lloyds Banking Group plc (the “Additional Tier 1 Securities”)

(CUSIP No. 539439AG4 and ISIN No. US539439AG42)

plus, a cash payment for any accrued and unpaid interest, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities

for

certain Enhanced Capital Notes listed in the table below

THE EXCHANGE OFFER WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON APRIL 2, 2014 (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED, THE “EXPIRATION DEADLINE”). ENHANCED CAPITAL NOTES (AS DEFINED BELOW) TENDERED PURSUANT TO THE EXCHANGE OFFER MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION DEADLINE (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED, THE “WITHDRAWAL DEADLINE”), BUT NOT THEREAFTER. IN ADDITION, IF NOT PREVIOUSLY RETURNED, YOU MAY WITHDRAW ENHANCED CAPITAL NOTES THAT YOU TENDER THAT ARE NOT ACCEPTED BY US FOR EXCHANGE AFTER THE EXPIRATION OF 40 BUSINESS DAYS FOLLOWING COMMENCEMENT OF THE EXCHANGE OFFER.

LBG Capital No. 1 plc (“LBG 1”), an indirect wholly owned subsidiary of Lloyds Banking Group plc (“LBG”), is offering to exchange, on the terms and conditions described in this prospectus (the “LBG 1 Offer”), Fixed Rate Reset Additional Tier 1 Securities (the “Additional Tier 1 Securities”) issued by Lloyds Banking Group plc (“LBG”), plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for (1) 7.875% Dated Enhanced Capital Notes due 2020, issued by LBG 1 and fully and unconditionally guaranteed by LBG (the “Series 1 ECNs”), (2) 8.00% Fixed-to-Floating Rate Undated Enhanced Capital Notes, issued by LBG 1 and fully and unconditionally guaranteed by LBG (the “Series 2 ECNs”) and (3) 8.50% Fixed-to-Floating Rate Undated Enhanced Capital Notes, issued by LBG 1 and fully and unconditionally guaranteed by LBG (the “Series 3 ECNs”).

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LBG Capital No. 2 plc (“LBG 2” and, together with LBG 1, the “Offerors” and each, an “Offeror”), an indirect wholly owned subsidiary of LBG, is offering to exchange, on the terms and conditions described in this prospectus (the “LBG 2 Offer” and, together with the “LBG 1 Offer”, the “Exchange Offer”), Additional Tier 1 Securities, plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for 7.875% Dated Enhanced Capital Notes due 2020, issued by LBG 2 and fully and unconditionally guaranteed by Lloyds Bank plc (the “Series 4 ECNs” and, collectively with the Series 1 ECNs, the Series 2 ECNs and the Series 3 ECNs, the “ECNs”).

For each \$1,000 of the Enhanced Capital Notes validly tendered and accepted for exchange, holders of a particular series will be eligible to receive a principal amount of the Additional Tier 1 Securities set out in the table below (the “Exchange Consideration”).

The maximum aggregate principal amount of ECNs that can be accepted in the Exchange Offer is such an amount that would result in issuing the Additional Tier 1 Securities in an aggregate principal amount no greater than \$1,675,000,000 (the “Maximum New Issue Size”).

Exchange Priority	Offer	Enhanced Capital Notes	ISIN	Interest Rate	First Optional Call Date	Principal Amount Outstanding	Exchange Consideration(1)
1	LBG 1 Offer	LBG Capital No. 1 plc 7.875% Dated Enhanced Capital Notes due November 1, 2020	XS0459093521 XS0459093794	7.875% per annum	Not applicable	\$985,636,000	\$1,060.00 principal amount of Additional Tier 1 Securities

TABLE OF CONTENTS

Exchange Priority	Offer	Enhanced Capital Notes	ISIN	Interest Rate	First Optional Call Date	Principal Amount Outstanding	Exchange Consideration(1)
2	LBG 2 Offer	LBG Capital No. 2 plc 7.875% Dated Enhanced Capital Notes due March 19, 2020	XS0496068429	7.875% per annum	Not applicable	\$407,578,000	\$1,062.50 principal amount of Additional Tier 1 Securities
3	LBG 1 Offer	LBG Capital No. 1 plc 8.00% Fixed-to-Floating Rate Undated Enhanced Capital Notes	XS0473106283 XS0471767276	8.00% to (but excluding) June 15, 2020. From (and including) June 15, 2020, 3-month U.S. dollar LIBOR plus 6.405%.	June 15, 2020	\$1,258,631,000	\$1,057.50 principal amount of Additional Tier 1 Securities
4	LBG 1 Offer	LBG Capital No. 1 plc 8.50% Fixed-to-Floating Rate Undated Enhanced Capital Notes	XS0473103348 XS0471770817	8.50% to (but excluding) December 17, 2021. From (and including) December 17, 2021, 3-month U.S. dollar LIBOR plus 6.921%.	December 17, 2021	\$276,658,000	\$1,060.00 principal amount of Additional Tier 1 Securities

(1) Principal amount of Additional Tier 1 Securities to be issued in exchange for each \$1,000 of ECNs.

Additional Tier 1 Securities	Currency	New Issue Price	Initial Coupon	Reset Coupon	Conversion Price	First Call Date	Minimum New Issue Size	Maximum New Issue Size
Fixed Rate Reset Additional Tier 1 Securities	USD	100%	7.5%	5-year MS+4.76%	\$1.072	June 27, 2024	\$750,000,000	\$1,675,000,000

Upon the terms and subject to the conditions of the Exchange Offer, LBG 1 and LBG 2 will accept tenders in accordance with the Exchange Priority set out in the table above, until either (i) all of the ECNs validly offered for exchange have been accepted or (ii) the principal amount of Additional Tier 1 Securities to be delivered in exchange for ECNs is the maximum such principal amount that can be delivered without exceeding the Maximum New Issue Size. Where the acceptance in accordance with the Exchange Priority of all valid tenders of a series of ECNs would require a greater principal amount of Additional Tier 1 Securities to be delivered than the Maximum New Issue Size, ECNs validly tendered and not validly withdrawn prior to the Expiration Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series, on a pro rata basis up to the Maximum New Issue Size. Offers to exchange a series of ECNs with a lower Exchange Priority than the lowest ranking series of ECNs with respect to which any tenders are accepted, will not be accepted. The Offerors reserve the right, at their absolute discretion, but are under no obligation, to increase or waive the Maximum New Issue Size at any time, subject to compliance with applicable law.

The Exchange Offer is subject to a minimum new issue size of at least \$750,000,000 in aggregate principal amount of Additional Tier 1 Securities being issued in exchange for ECNs validly tendered pursuant to the Exchange Offer and not withdrawn (the “Minimum New Issue Size”) and certain other conditions (the “General Conditions”) set out under “The Exchange Offer—Terms of the Exchange Offer—Exchange Offer Conditions—General Conditions”.

The Additional Tier 1 Securities will be delivered on the Settlement Date, expected to be on or around April 7, 2014, unless the Expiration Deadline is extended. We will not deliver fractional Additional Tier 1 Securities pursuant to the Exchange Offer. Instead, each tendering holder of ECNs who would otherwise be entitled to a fractional Additional Tier 1 Security will receive cash in an amount equal to such fractional entitlement.

The Offerors may extend, re-open, amend, limit, waive any condition of, or terminate the Exchange Offer at any time (subject to applicable law and as provided in this prospectus). Details of any such extension, re-opening, amendment, limitation, waiver (if permitted) or termination will be announced wherever applicable as provided in this prospectus as soon as reasonably practicable after the relevant decision is made. For more information, see “The Exchange Offer”.

Questions and requests for assistance in connection with (i) the Exchange Offer may be directed to the Dealer Managers and (ii) the delivery of Exchange Instructions (as defined herein) may be directed to Lucid Issuer Services Limited (the “Exchange Agent”), as applicable, the contact details for whom are on the back cover page of this prospectus.

We expect to apply to list the Additional Tier 1 Securities on the Global Exchange Market of the Irish Stock Exchange within two months of the Settlement Date. Our American Depositary Shares are listed on the New York Stock Exchange under the symbol “LYG”.

Before deciding whether to exchange your ECNs for Additional Tier 1 Securities, you are encouraged to read and carefully consider this prospectus (including the documents incorporated by reference herein) in its entirety. See “Risk Factors” beginning on page 21 for a discussion of risk factors that you should consider prior to deciding whether to tender your ECNs in the Exchange Offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Exchange Offer or the securities to be issued in the Exchange Offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

TABLE OF CONTENTS

	Page
Prospectus	
<u>About this Prospectus</u>	<u>vi</u>
<u>Important Notices</u>	<u>viii</u>
<u>Incorporation of Information by Reference</u>	<u>x</u>
<u>Forward-Looking Statements</u>	<u>xi</u>
<u>Enforceability of Civil Liabilities</u>	<u>xii</u>
<u>Prospectus Summary</u>	<u>1</u>
<u>Risk Factors</u>	<u>21</u>
<u>Use of Proceeds and Rationale of the Exchange Offer</u>	<u>45</u>
<u>Ratio of Earnings to Fixed Charges</u>	<u>46</u>
<u>Capitalization of the Group</u>	<u>47</u>
<u>Market Information and Dividend Policy</u>	<u>49</u>
<u>The Exchange Offer</u>	<u>51</u>
<u>Important Note Relating to the Concurrent Exchange Offers</u>	<u>63</u>
<u>Description of the Additional Tier 1 Securities</u>	<u>64</u>
<u>Comparison of Certain Material Terms of the Enhanced Capital Notes and the Additional Tier 1 Securities</u>	<u>99</u>
<u>Description of Ordinary Shares</u>	<u>113</u>
<u>Description of American Depositary Shares</u>	<u>118</u>
<u>Taxation Considerations</u>	<u>125</u>
<u>Trading in Ordinary Shares and ADSs by the Issuer and its Affiliates</u>	<u>135</u>
<u>Certain Benefit Plan Investor Considerations</u>	<u>136</u>
<u>Validity of the Additional Tier 1 Securities</u>	<u>138</u>
<u>Experts</u>	<u>138</u>
<u>Index to Financial Statements</u>	<u>138</u>

You should rely only on the information contained or incorporated by reference in this prospectus (including any free writing prospectus issued or authorized by us). Neither we nor the Dealer Managers have authorized anyone to provide you with additional, different or inconsistent information. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted. You should assume that the information contained in this prospectus and the documents incorporated by reference herein is accurate only as of their respective dates.

ABOUT THIS PROSPECTUS

In this prospectus, we use the following terms:

- “we”, “us”, “our”, “the Issuer”, “LBG” and “Lloyds Banking Group” mean Lloyds Banking Group plc;
 - “LBG 1” means LBG Capital No. 1 plc;
 - “LBG 2” means LBG Capital No. 2 plc;

- “Group” means Lloyds Banking Group plc together with its subsidiaries and associated undertakings;
 - “SEC” refers to the Securities and Exchange Commission;
 - “pound sterling”, “pence”, “£” and “p” refer to the currency of the United Kingdom;
 - “U.S. dollars”, “\$” and “cents” refer to the currency of the United States;

TABLE OF CONTENTS

- “euro”, “€” and “euro cents” refer to the currency of the member states of the European Union (the “EU”) that have adopted the single currency in accordance with the treaty establishing the European Community, as amended; and

- “UK” means the United Kingdom.

TABLE OF CONTENTS

IMPORTANT NOTICES

If a holder decides to tender ECNs pursuant to the Exchange Offer, the holder must arrange for the relevant account holder to submit an electronic tender and blocking instruction in the form specified in the “Deadlines and Corporate Events” or similar form of notice to be sent to account holders by each of Euroclear and Clearstream, Luxembourg on or about the date of this prospectus informing account holders of the procedures to be followed in order to participate in the Exchange Offer (each an “Exchange Instruction”). See “The Exchange Offer—Procedures for Participating in the Exchange Offer”.

If you are a beneficial owner of ECNs that are held by or registered in the name of a bank, broker, custodian or other nominee, and you wish to participate in the Exchange Offer, you must promptly contact your bank, broker, custodian or other nominee to instruct it to tender your ECNs, to agree to the terms of the Exchange Offer and to cause the timely transmission of an Exchange Instruction on your behalf to the Exchange Agent. You are urged to instruct your bank, broker, custodian or other nominee at least five Business Days prior to the Expiration Deadline in order to allow adequate processing time for your instruction.

The Offerors are making the Exchange Offer only in those jurisdictions where it is legal to do so. See “The Exchange Offer—Certain Matters Relating to Non-U.S. Jurisdictions”. This document does not constitute a “prospectus” for the purposes of Directive 2003/71/EC (as amended) and no such prospectus is required for the issue of the Additional Tier 1 Securities.

ECNs can be tendered in the Exchange Offer only in accordance with the procedures described in “The Exchange Offer—Procedures for Participating in the Exchange Offer”. Holders who do not participate in the Exchange Offer, or whose ECNs are not accepted for purchase, will continue to hold their ECNs.

Holders must comply with all laws that apply to them in any place in which they possess this prospectus. Holders must also obtain any consents or approvals that they need in order to tender their ECNs. None of LBG, the Offerors, Dealer Managers or the Exchange Agent (or any of their respective directors, employees or affiliates) is responsible for holders’ compliance with these legal requirements. See “The Exchange Offer—Certain Matters Relating to Non-U.S. Jurisdictions”. The applicable provisions of the UK Financial Services and Markets Act 2000 must be complied with in respect of anything done in relation to the Exchange Offer in, from or otherwise involving the United Kingdom.

See “Taxation Considerations Material U.S. Federal Income Tax Considerations” for a description of material United States federal income tax considerations that should be considered carefully in evaluating the Exchange Offer.

Unless the context otherwise requires, all references in this prospectus to a “holder” or “holder of the ECNs” include:

- (a) each person who is shown in the records of Euroclear Bank S.A./N.V. (“Euroclear”) or Clearstream Banking, société anonyme (“Clearstream, Luxembourg” and, together with Euroclear, the “Clearing Systems” and each a “Clearing System”) as a holder of the ECNs (also referred to as “Direct Participants” and each a “Direct Participant”);
- (b) any broker, dealer, commercial bank, trust company or other nominee or custodian who holds ECNs; and
- (c) each beneficial owner of ECNs holding such ECNs, directly or indirectly, in accounts in the name of a Direct Participant acting on the beneficial owner’s behalf,

except that for the purposes of the exchange of ECNs pursuant to the Exchange Offer and the payment of any cash payments, to the extent the beneficial owner of the relevant ECNs is not a Direct Participant, the relevant Additional

Tier 1 Securities and any cash payments will only be delivered and paid to the relevant Direct Participant and the delivery of such Additional Tier 1 Securities and payment of cash payments to such Direct Participant will satisfy

viii

TABLE OF CONTENTS

any obligations of LBG, the Exchange Agent and the relevant Clearing System in respect of the exchange of such ECNs.

The Offerors are not providing for guaranteed delivery procedures and therefore you must allow sufficient time for the necessary tender procedures to be completed during normal business hours of the Clearing Systems prior to the Expiration Deadline. Tenders received by the Exchange Agent after the Expiration Deadline will be disregarded and of no effect.

LBG is incorporating by reference into this document important business and financial information that is not included in or delivered with this document. This information is available without charge to security holders upon written or oral request. Requests should be directed to:

Lloyds Banking Group
25 Gresham Street
London EC2V 7HN
United Kingdom
Telephone Number: +44 207 626 1500

In order to ensure timely delivery of such documents, holders must request this information no later than five Business Days before the date they must make their investment decision. Accordingly, any request for information should be made by March 26, 2014 to ensure timely delivery of the documents prior to the Expiration Deadline.

See “Risk Factors”, beginning on page 21 for a description of certain factors relating to a decision to tender your ECNs in the Exchange Offer, including information about our business.

The terms of the Additional Tier 1 Securities will be substantially different from those of the ECNs. In addition to differences in financial terms which include, among others, the coupon and payment dates, the terms of the Additional Tier 1 Securities differ in respect of maturity, interest cancellation, the contingent conversion feature and ranking. Investors should carefully consider these differences in addition to those described under “Comparison of Certain Material Terms of the Enhanced Capital Notes and the Additional Tier 1 Securities” in deciding whether to tender ECNs for exchange in connection with the Exchange Offer.

The Additional Tier 1 Securities are novel and complex financial instruments and may not be a suitable investment for all investors. As a result, an investment in the Additional Tier 1 Securities and the Settlement Shares issuable following the Trigger Event will involve certain increased risks. Investors should be aware that if one or more of the risks described in this prospectus were to occur, they may find that an investment in the Additional Tier 1 Securities is materially adversely affected. As a provider of additional tier 1 capital to LBG, an investor in the Additional Tier 1 Securities should be prepared to suffer losses on its investment if, in particular, LBG and/or the financial sector generally approaches or enters into a period of financial stress. There is no established trading market for the Additional Tier 1 Securities and one may not develop. If a market does develop, it may not be liquid.

Neither the Offerors nor their representatives are making any representation to you regarding the legality of participation in the Exchange Offer by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a decision whether to tender your ECNs in the Exchange Offer.

All references in this prospectus to a “cash payment” or “cash payments” payable on the Settlement Date of the Exchange Offer with respect to a series of ECNs include (i) all accrued and unpaid interest payments on such series of ECNs from and including the latest interest payment date for such series of ECNs through, but not including, the Settlement Date, and (ii) any cash amounts in lieu of any fractional Additional Tier 1 Securities that a tendering holder of ECNs would have otherwise been entitled to receive. Any cash amounts payable pursuant to the Exchange Offer will be rounded to the nearest U.S.\$0.01, with U.S.\$0.005, being rounded upwards.

Unless otherwise indicated or the context otherwise requires, all references in this prospectus to the exchange of ECNs for Additional Tier 1 Securities include all cash payments made in connection with the exchange of such ECNs for Additional Tier 1 Securities.

TABLE OF CONTENTS

The Additional Tier 1 Securities will be available initially only in book-entry form, represented in one or more global securities registered in the name of a nominee of The Depository Trust Company (“DTC”). You will hold beneficial interests in the Additional Tier 1 Securities through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg, and DTC and its direct and indirect participants will record your beneficial interest on their books.

We expect to apply to list the Additional Tier 1 Securities on the Global Exchange Market of the Irish Stock Exchange within two months of the Settlement Date. We will comply with any undertakings given by us from time to time to the Global Exchange Market of the Irish Stock Exchange in connection with the Additional Tier 1 Securities, and we will furnish to the Global Exchange Market of the Irish Stock Exchange all such information as the rules of the Global Exchange Market of the Irish Stock Exchange may require in connection with the listing of the Additional Tier 1 Securities.

INCORPORATION OF INFORMATION BY REFERENCE

LBG files annual, semiannual and special reports and other information with the Securities and Exchange Commission. You may read and copy any document that LBG files with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You can call the SEC on 1-800-SEC-0330 for further information on the Public Reference Room. The SEC’s website, at <http://www.sec.gov>, contains, free of charge, reports and other information in electronic form that we have filed. You may also request a copy of any filings referred to below (excluding exhibits) at no cost, by contacting us at 25 Gresham Street, London EC2V 7HN, England, telephone +44 207 626 1500.

The SEC allows LBG to incorporate by reference much of the information that it files with them. This means:

- incorporated documents are considered part of this prospectus;
- LBG can disclose important information to you by referring you to these documents; and
- information that LBG files with the SEC will automatically update and supersede this prospectus.

We also incorporate by reference in this prospectus any future documents we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) from the date of this prospectus until the Exchange Offer contemplated in this prospectus expires or is terminated. Reports on Form 6-K that we may furnish to the SEC after the date of this prospectus (or portions thereof) are incorporated by reference in this prospectus only to the extent that the report expressly states that it is (or such portions are) incorporated by reference in this prospectus.

Each document incorporated by reference into this prospectus is current only as of the date of such document, and the incorporation by reference of such document is not intended to create any implication that there has been no change in the affairs of LBG since the date of the relevant document or that the information contained in such document is current as of any time subsequent to its date. Any statement contained in such incorporated documents is deemed to be modified or superseded for the purpose of this prospectus to the extent that a subsequent statement contained in another document that is incorporated by reference into this prospectus at a later date modifies or supersedes that statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

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This prospectus incorporates by reference the documents listed below, which LBG has previously filed with or furnished to the SEC. These documents contain important information about LBG and its financial condition, business and results.

- LBG's annual report (the "Annual Report") for the fiscal year ended December 31, 2013 on Form 20-F filed with the SEC on March 5, 2014 pursuant to the Exchange Act, including the audited consolidated annual financial statements of the Group, together with the audit report thereon;
- Form 6-K dated March 5, 2014, containing the Group's statement of computation of ratio of earnings to fixed charges as at December 31, 2013 and for the years ended December 31, 2012, 2011, 2010 and 2009; and

x

TABLE OF CONTENTS

- Form 6-K dated March 5, 2014, containing the Group's capitalization and indebtedness on a consolidated basis in accordance with IFRS as at December 31, 2013.

FORWARD-LOOKING STATEMENTS

From time to time, we may make statements, both written and oral, regarding assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the sections entitled "Risk Factors" in this prospectus and "Forward-Looking Statements" in our Annual Report on Form 20-F for the year ended December 31, 2013, which is incorporated by reference herein.

Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Group or on its behalf include, but are not limited to the risks identified above under the section entitled "Risk Factors" in our Annual Report on Form 20-F for the year ended December 31, 2013, as well as the following:

- general economic and business conditions in the UK and internationally;
- inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks;
 - fluctuations in exchange rates, stock markets and currencies;
- the ability to access sufficient funding to meet the Group's liquidity needs;
 - changes to the Group's credit ratings;
- the ability to derive cost savings and other benefits including, without limitation, as a result of the Group's Simplification Programme;
- changing demographic developments including mortality and changing customer behavior including consumer spending, saving and borrowing habits; changes in customer preferences and changes to borrower or counterparty credit quality;
- instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues;
- technological changes, natural and other disasters, adverse weather and similar contingencies outside the Group's control;
 - inadequate or failed internal or external processes, people and systems;
-

terrorist acts and other acts of war or hostility and responses to those acts, geopolitical, pandemic or other such events;

- changes in laws, regulations, taxation, accounting standards or practices;
- regulatory capital or liquidity requirements and similar contingencies outside the Group's control;
- the policies and actions of governmental or regulatory authorities in the UK, the EU, the United States or elsewhere;
- the implementation of the draft EU crisis management framework directive and banking reform, following the recommendations made by the Independent Commission on Banking;
 - the ability to attract and retain senior management and other employees;

TABLE OF CONTENTS

- requirements or limitations imposed on the Group as a result of HM Treasury’s investment in the Group;
- the ability to complete satisfactorily the disposal of certain assets as part of the Group’s EU State Aid obligations;
 - the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets and market-related trends and developments;
 - exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints;
- changes in competition and pricing environments, or the inability to hedge certain risks economically; and
- the adequacy of loss reserves, the actions of competitors, including non-bank financial services and lending companies, and the success of the Group in managing the risks of the foregoing.

We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, forward-looking events discussed in this prospectus or any information incorporated by reference might not occur.

ENFORCEABILITY OF CIVIL LIABILITIES

LBG is a public limited company incorporated under the laws of Scotland. Most of LBG’s directors and executive officers and certain of the experts named herein are residents of the UK. A substantial portion of the assets of LBG, its subsidiaries and such persons, are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon all such persons or to enforce against them in U.S. courts judgments obtained in such courts, including those predicated upon the civil liability provisions of the federal securities laws of the United States. Furthermore, LBG has been advised by its solicitors that there is doubt as to the enforceability in the UK, in original actions or in actions for enforcement of judgments of U.S. courts, of certain civil liabilities, including those predicated solely upon the federal securities laws of the United States.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

The following is a summary of this prospectus and should be read as an introduction to, and in conjunction with, the remainder of this prospectus and any documents incorporated by reference therein. You should base your investment decision on a consideration of this prospectus and any documents incorporated by reference therein, as a whole. Words and expressions defined in “Description of the Additional Tier 1 Securities” below shall have the same meanings in this summary.

The Issuer

Lloyds Banking Group plc was incorporated as a public limited company and registered in Scotland under the UK Companies Act 1985 on October 21, 1985 (registration number 95000). Lloyds Banking Group plc’s registered office is at The Mound, Edinburgh EH1 1YZ, Scotland, and its principal executive offices in the UK are located at 25 Gresham Street, London EC2V 7HN, United Kingdom, telephone number +44 (0) 20 7626 1500. For further information relating to LBG, please refer to our Annual Report on Form 20-F for the fiscal year ended December 31, 2013.

The Offerors

LBG Capital No. 1 plc was incorporated and registered in England on October 15, 2009 with registered number 7045658 as a public company limited by shares. The principal legislation under which LBG Capital No. 1 plc operates is the UK Companies Act 2006 (as amended) (the “Companies Act”) and regulations made thereunder. LBG Capital No. 1 plc is domiciled in the United Kingdom. Its head office is at 25 Gresham Street, London EC2V 7HN (Tel. +44 (0)20 7626 1500).

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

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

LBG Capital No. 1 plc’s and LBG Capital No. 2 plc’s principal activities include issuing the ECNs and holding certain securities issued by other members of the Group.

The following summary contains selected information about the Exchange Offer. It is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this prospectus. For a more detailed description of the Exchange Offer, see “The Exchange Offer”.

The Offerors

LBG Capital No. 1 plc
LBG Capital No. 2 plc

Purpose of the Exchange Offer

In 2009, the Group undertook a significant capital raising exercise in order to reinforce the Group’s going-concern capital ratios, and to meet the stress

test requirements of the Financial Services Authority (the "FSA"). As a component of the exercise, the Group issued 33 series of enhanced capital notes, with a nominal amount of £8.4 billion currently outstanding.

The terms and conditions of the ECNs include a Regulatory Call Right (as defined herein) should, amongst other things,

TABLE OF CONTENTS

the ECNs cease to be taken into account for the purposes of any “stress test” applied by the Prudential Regulatory Authority (the “PRA”) in respect of core capital (successor to the FSA). Whilst still uncertain, management of LBG believes recent developments resulting in higher capital requirements for banks, including a changed definition of core capital, make it likely that the ECNs will not provide going concern benefit under future stress tests.

These recent developments include:

- a requirement in the CRR (as defined below) that with effect from January 1, 2014, convertible additional tier 1 capital instruments should have a conversion trigger set at no less than 5.125% CET1 ratio (“CET1 ratio” means, the ratio of a firm’s common equity tier 1 capital to its risk weighted assets, and calculated in accordance with the end-point requirements of CRD IV);
- statements by the PRA in late 2013 that a conversion trigger of 5.125% CET1 ratio may not convert in time to prevent the failure of a firm and that it expects major UK firms to meet a 7% CET1 ratio determined in accordance with the end-point requirements of CRD IV;
- a statement by the European Banking Authority (the “EBA”) in January 2014 that tier 2 instruments must have a conversion trigger above a 5.5% CET1 ratio to be recognized in its forthcoming stress tests; and
- an announcement by the PRA that, following a consultation commenced in October 2013, it expects to revise stress testing methodology and pass marks in 2014.

As a result of differences in definition, the Group’s CET1 ratio is substantially lower than the core tier 1 ratio on which the conversion trigger of the ECNs is based. As at December 31, 2013, the difference was 4.0%. Applying the same difference to the 5.0% core tier 1 ratio used as the ECN conversion trigger gives a 1.0% CET1 ratio determined in accordance with end point requirements of CRD IV, well below the CRR minimum requirements.

The Group is today launching prioritized exchange offers to holders of enhanced capital notes, including the ECNs, to exchange their enhanced capital notes for new additional tier 1 securities at a price consistent with current trading prices. The offers provide holders with a means to eliminate the uncertainty around the Regulatory Call Right in the enhanced capital notes. In addition, such exchange offers are expected to result in sufficient additional tier 1 securities being issued to meet the Group’s medium-term additional tier 1 target.

TABLE OF CONTENTS

The Exchange Offer

LBG Capital No. 1 is offering to exchange, on the terms and conditions described in this prospectus, Additional Tier 1 Securities, plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for the Series 1 ECNs, the Series 2 ECNs and the Series 3 ECNs. LBG Capital No. 2 plc is offering to exchange, on the terms and conditions described in this prospectus, Additional Tier 1 Securities, plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for the Series 4 ECNs.

Set forth below is a table that shows, with respect to each series of ECNs, the aggregate principal amount of Additional Tier 1 Securities that a holder of a particular series will receive for each \$1,000 principal amount of ECNs validly tendered and accepted for exchange.

Exchange Priority	Offer	Enhanced Capital Notes	ISIN	Interest Rate	First Optional Call Date	Principal Amount Outstanding	Exchange Consideration(1)
1	LBG 1 Offer	LBG Capital No. 1 plc 7.875% Dated Enhanced Capital Notes due November 1, 2020	XS0459093521 XS0459093794	7.875% per annum	Not applicable	\$985,636,000	\$1,060.00 principal amount of Additional Tier 1 Securities
2	LBG 2 Offer	LBG Capital No. 2 plc 7.875% Dated Enhanced Capital Notes due March 19, 2020	XS0496068429	7.875% per annum	Not applicable	\$407,578,000	\$1,062.50 principal amount of Additional Tier 1 Securities
3	LBG 1 Offer	LBG Capital No. 1 plc 8.00% Fixed-to-Floating Rate Undated Enhanced Capital Notes	XS0473106283 XS0471767276	8.00% to (but excluding) June 15, 2020. From (and including) June 15, 2020, 3-month U.S. dollar LIBOR plus 6.405%.	June 15, 2020	\$1,258,631,000	\$1,057.50 principal amount of Additional Tier 1 Securities
4						\$276,658,000	

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LBG 1 Offer	LBG Capital No. XS0473103348 1 plc 8.50% XS0471770817 Fixed-to-Floating Rate Undated Enhanced Capital Notes	8.50% to (but excluding) December 17, 2021. From (and including) December 17, 2021, 3-month U.S. dollar LIBOR plus 6.921%.	December 17, 2021	\$1,060.00 principal amount of Additional Tier 1 Securities
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(1) Principal amount of Additional Tier 1 Securities to be issued in exchange for each \$1,000 of ECNs.

Additional Tier 1 Securities	Currency	New Issue Price	Initial Coupon	Reset Coupon	Conversion Price	First Call Date	Minimum New Issue Size	Maximum New Issue Size
Fixed Rate Reset Additional Tier 1 Securities	USD	100%	7.5%	5-year MS+4.76%	\$1.072	June 27, 2024	\$750,000,000	\$1,675,000,000

TABLE OF CONTENTS

Securities Offered	The Offerors are offering up to \$1,675,000,000 Fixed Rate Reset Additional Tier 1 Securities (the “Additional Tier 1 Securities”), issued by LBG which will be registered under the Securities Act. See “Description of the Additional Tier 1 Securities”.
ECNs	LBG 1 ECNs and LBG 2 ECNs
LBG 1 ECNs	<ul style="list-style-type: none">· LBG Capital No. 1 plc 7.875% Dated Enhanced Capital Notes due 2020 (ISIN XS0459093521 and XS0459093794);· LBG Capital No. 1 plc 8.00% Fixed-to-Floating Rate Undated Enhanced Capital Notes (ISIN XS0473106283 and XS0471767276); and· LBG Capital No. 1 plc 8.50% Fixed-to-Floating Rate Undated Enhanced Capital Notes (ISIN XS0473103348 and XS0471770817).
LBG 2 ECNs	<ul style="list-style-type: none">· LBG Capital No. 2 plc 7.875% Dated Enhanced Capital Notes due 2020 (ISIN XS0496068429).
Maximum New Issue Size	\$1,675,000,000 of Additional Tier 1 Securities. The Offerors expressly reserve the right to increase, decrease or waive such Maximum New Issue Size in their sole discretion at any time, subject to compliance with applicable law. In the event the Maximum New Issue Size is modified, references herein to the Maximum New Issue Size shall be to the Maximum New Issue Size as so modified.
Minimum New Issue Size	\$750,000,000 of Additional Tier 1 Securities.
Exchange Priority	The order, on a series by series basis, in which tenders of ECNs will be accepted, as more particularly set out in the table on the front cover page of this prospectus.
Exchange Offer Period	From the commencement of the Exchange Offer on March 6, 2014 to the Expiration Deadline, which is expected to be 11:59 p.m. on April 2, 2014, subject to extension.
Withdrawal Rights	If you decide to tender your ECNs in the Exchange Offer, you may withdraw them at any time prior to 11:59 p.m. New York City time on April 2, 2014. Holders may not rescind their withdrawal of tenders of ECNs, and any ECNs properly withdrawn will thereafter be deemed not validly tendered for purposes of the Exchange Offer. Properly withdrawn ECNs may, however, be re-tendered by again following the procedures described herein at any time prior to the Expiration Deadline.

In addition, if not previously returned, you may withdraw ECNs that you tender that are not accepted by us for exchange after the expiration of 40 Business Days following

TABLE OF CONTENTS

	the commencement of the Exchange Offer.
Fractional Entitlements	No fractional Additional Tier 1 Securities will be delivered pursuant to the Exchange Offer. Instead, each tendering holder of ECNs who would otherwise be entitled to a fractional Additional Tier 1 Security will receive cash in an amount equal to such fractional entitlement.
Conditions of the Exchange Offer	The Exchange Offer is subject to the satisfaction or waiver of certain conditions, including the Minimum New Issue Size, which are set forth in “The Exchange Offer—Terms of the Exchange Offer—Exchange Offer Conditions”.
Amendment of Terms of the Exchange Offer	Subject to applicable laws and as provided herein, the Offerors may extend, re-open, amend, limit, waive any condition of, or terminate the Exchange Offer at any time. Details of any such extension, re-opening, amendment, limitation, waiver (if permitted) or termination will be announced wherever applicable as provided in this prospectus as soon as reasonably practicable after the relevant decision is made.
Settlement Date	The Additional Tier 1 Securities plus the cash payment for any accrued and unpaid interest, (including, if applicable, cash amounts in lieu of any fractional Additional Tier 1 Securities) will be delivered on the Settlement Date, which is expected to be on or around April 7, 2014. Any cash amounts payable pursuant to the Exchange Offer will be rounded to the nearest U.S.\$0.01, with U.S.\$0.005, being rounded upwards.
Offer Restrictions	The Exchange Offer is subject to certain offer restrictions. See “The Exchange Offer—Certain Matters Relating to Non-U.S. Jurisdictions”.
Use of Proceeds	Neither LBG nor the Offerors will receive any proceeds from the issuance of the Additional Tier 1 Securities in the Exchange Offer.
Dealer Managers	<p>The Global Coordinators and Joint Lead Dealer Managers for the Exchange Offer are Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.</p> <p>The Joint Lead Dealer Managers for the Exchange Offer are Barclays Capital Inc., Lloyds Securities Inc. and Morgan Stanley & Co. LLC.</p> <p>The Joint Dealer Managers for the Exchange Offer are BNP Paribas Securities Corp., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and UBS Limited.</p> <p>Lloyds Securities Inc. is an affiliate of LBG and the Offerors. Any participation in the Exchange Offer by Lloyds Securities Inc. will be made in</p>

compliance with applicable provisions of Rule 5121 of the Financial Industry
Regulatory Authority, Inc.

TABLE OF CONTENTS

Exchange Agent	Lucid Issuer Services Limited.
Brokerage Commission	No brokerage commissions are payable by the holders to LBG, the Offerors, the Dealer Managers or the Exchange Agent. If your ECNs are held through a broker or other nominee that tenders the ECNs on your behalf, such broker or other nominee may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges will apply.
No Recommendation	None of LBG, the Offerors, the Dealer Managers or the Exchange Agent (or any of their respective directors, employees or affiliates) is providing holders of ECNs with any legal, business, tax or other advice in the prospectus, nor is making any recommendation as to whether or not holders should tender any ECNs in the Exchange Offer or refrain from tendering any ECNs, and none of them has authorized any person to make any such recommendation. Holders should consult their own advisers as needed to assist them in making an investment decision.
Further Information	<p>If you have questions about the terms of the Exchange Offer, please contact your bank, broker or professional investment advisor, or you may contact the Dealer Managers. If you have questions regarding the procedures for tendering your ECNs, please contact the Exchange Agent. The Exchange Agent's and Dealer Managers' contact details are set forth on the back cover page of this prospectus.</p> <p>As required by the Securities Act, we have filed a registration statement relating to the Exchange Offer with the SEC. This document is a part of that registration statement, which includes additional information.</p>
U.S. Federal Income Tax Considerations	For a discussion of material U.S. federal income tax considerations of the Exchange Offer applicable to holders of ECNs, see "Taxation Considerations—Material U.S. Federal Income Tax Considerations".
The Additional Tier 1 Securities	
Issuer	Lloyds Banking Group plc
Securities	Additional Tier 1 Securities
Issue Date	, 2014
Issue Price:	100%
Denomination	The Additional Tier 1 Securities will be issued in fully registered form in denominations of \$200,000 and in integral multiples of \$1,000 thereafter.

TABLE OF CONTENTS

Perpetual Securities	The Additional Tier 1 Securities are perpetual securities and have no fixed maturity or fixed redemption date.
Initial Interest Rate	From and including (the “Issue Date”) to but excluding June 27, 2024, (the “First Call Date”), interest will accrue on the Additional Tier 1 Securities at an initial rate equal to 7.5% per annum. From and including each Reset Date to but excluding the next succeeding Reset Date, the interest will accrue on the Additional Tier 1 Securities at a rate per annum equal to the sum of then prevailing Mid-Market Swap Rate on the relevant Reset Determination Date (as defined below) and 4.76%, converted to a quarterly rate in accordance with market convention (rounded to three decimal places, with 0.0005 rounded down)
Reset Date	The First Call Date and every 5th anniversary thereafter.
Interest Payment Dates	March 27, June 27, September 27 and December 27 of each year, commencing on June 27, 2014 (short first interest period).
Interest Payments Discretionary	Interest on the Additional Tier 1 Securities will be due and payable only at the sole discretion of LBG and LBG shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. If LBG elects not to make an interest payment on the relevant Interest Payment Date, or if LBG elects to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence LBG’s exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall not be or become due and payable. See also “—Agreement to Interest Cancellation” and “—Notice of Interest Cancellation” below.
Restrictions on Interest Payments	LBG shall cancel any interest on the Additional Tier 1 Securities (or, as appropriate, any part thereof) which is scheduled to be paid on an Interest Payment Date if in respect of such Interest Payment Date to the extent that LBG has an amount of Distributable Items on any scheduled Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments) made or declared by LBG since the end of LBG’s last financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Additional Tier 1 Securities and any Junior Securities and (ii) all payments (other than redemption payments) payable by LBG on such Interest Payment Date (x) on the Additional Tier 1 Securities and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items.

TABLE OF CONTENTS

In addition, LBG shall not pay any interest otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the payment of such interest would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Directive (as defined below) (or any provision of applicable law transposing or implementing Article 141(2) of the Directive, as amended or replaced), the Maximum Distributable Amount (as defined below), if any, then applicable to the Group to be exceeded.

“Distributable Items” shall have the meaning assigned to such term in CRD IV (as the same may be amended or replaced from time to time), as interpreted and applied in accordance with the Applicable Regulations then applicable to LBG, but amended so that any reference therein to “before distributions to holders of own funds instruments” shall be read as a reference to “before distributions by LBG to holders of Parity Securities, the Additional Tier 1 Securities or any Junior Securities”. Under CRD IV, as at the date hereof, “distributable items” means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments, less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s by-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution (LBG) and not on the basis of the consolidated accounts.

“Junior Securities” means (i) any Ordinary Share (as defined below) or other securities of LBG ranking, or expressed to rank, junior to the Additional Tier 1 Securities in a Winding-up or Administration Event and/or (ii) any securities issued by any other member of the Group where the terms of such securities benefit from a guarantee or support agreement entered into by LBG which ranks, or is expressed to rank, junior to the Additional Tier 1 Securities in a Winding-up or Administration Event.

“Parity Securities” means (i) the most senior ranking class or classes of preference shares in the capital of LBG from time to time and any other securities of LBG ranking, or expressed to rank, pari passu with the Additional Tier 1 Securities and/or such preference shares following a Winding-up or Administration Event and/or (ii) any securities issued by any other member of the Group where the terms of the securities benefit from a guarantee or support agreement entered into by LBG which ranks or is expressed to rank pari passu with the Additional Tier 1 Securities and/or such preference shares following a Winding-up or Administration Event.

TABLE OF CONTENTS

Solvency Condition

Other than in a Winding-up or Administration Event (as defined below) or in relation to the cash component of any Alternative Consideration (as defined below) in any Settlement Shares Offer, payments in respect of or arising under the Additional Tier 1 Securities (including any damages for breach of any obligations thereunder) are, in addition to the right of LBG to cancel payments of interest, conditional upon LBG being solvent at the time when the relevant payment is due to be made and no principal, interest or other amount payable shall be due and payable in respect of or arising from the Additional Tier 1 Securities except to the extent that LBG could make such payment and still be solvent immediately thereafter (such condition is referred to herein as the “Solvency Condition”).

LBG shall be considered to be solvent at a particular point in time if:

- (i) it is able to pay our debts owed to our Senior Creditors (as defined under “—Ranking and Liquidation Distribution” below) as they fall due; and
- (ii) its Assets are at least equal to its Liabilities.

“Assets” means the unconsolidated gross assets of LBG, as shown in the latest published audited balance sheet of LBG, adjusted for subsequent events in such manner as the directors of LBG may determine.

“Liabilities” means the unconsolidated gross liabilities of LBG, as shown in the latest published audited balance sheet of LBG, adjusted for contingent liabilities and prospective liabilities and for subsequent events in such manner as the directors of LBG may determine.

Agreement to Interest Cancellation

By acquiring the Additional Tier 1 Securities, Securityholders acknowledge and agree that:

- (a) interest is payable solely at the discretion of LBG, and no amount of interest shall become due and payable in respect of the relevant interest period to the extent that it has been canceled by LBG at our sole discretion and/or deemed canceled as a result of LBG having insufficient Distributable Items; and
- (b) a cancellation or deemed cancellation of interest (in each case, in whole or in part) in accordance with the terms of the Indenture shall not constitute a default in payment or otherwise under the terms of the Additional Tier 1 Securities.

Interest will only be due and payable on an Interest Payment Date to the extent it is not canceled or deemed canceled in

TABLE OF CONTENTS

accordance with the provisions described under “Description of the Additional Tier 1 Securities —Interest Cancellation”, “Description of the Additional Tier 1 Securities —Solvency Condition”, “Description of the Additional Tier 1 Securities —Availability of Distributable Items”, “Description of the Additional Tier 1 Securities —Conversion—Automatic Conversion” and “Description of the Additional Tier 1 Securities —Ranking and Liquidation Distribution”. Any interest canceled or deemed canceled (in each case, in whole or in part) in the circumstances described above shall not be due and shall not accumulate or be payable at any time thereafter, and Securityholders shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation.

Ranking and Liquidation Proceeds

The Additional Tier 1 Securities will constitute our direct, unsecured and subordinated obligations, ranking equally without any preference among themselves. The rights and claims of the Securityholders in respect of or arising from the Additional Tier 1 Securities will be subordinated to the claims of Senior Creditors.

If at any time prior to the date on which a Trigger Event occurs:

(i) an order is made, or an effective resolution is passed, for the winding-up of LBG (except in each such case, a solvent winding-up solely for the purposes of a reorganization, reconstruction or amalgamation of LBG or the substitution in place of LBG of a successor in business of LBG, the terms of which (i) have previously been approved in writing by Securityholders of not less than 2/3 (two thirds) in aggregate principal amount of the Additional Tier 1 Securities and (ii) do not provide that the Additional Tier 1 Securities shall thereby become redeemable or repayable in accordance with their terms); or

(ii) an administrator of LBG is appointed and such administrator declares, or gives notice that it intends to declare and distribute a dividend (together, a “Winding-up or Administration Event”),

there shall be payable by LBG in respect of each Additional Tier 1 Security (in lieu of any other payment by LBG) such amount, if any, as would have been payable to the Securityholder if, throughout such Winding-up or Administration Event, such Securityholder were the holder of one of a class of preference shares in the capital of LBG (“Notional Preference Shares”) having an equal right to a return of assets in the Winding-up or Administration Event to, and so ranking pari passu with, the holders of the most senior class or classes of issued preference shares in the capital of LBG from time to time (if any) and which have a preferential right to a return of assets in the Winding-up or Administration Event over, and so rank ahead of, the holders

TABLE OF CONTENTS

of all other classes of issued shares for the time being in the capital of LBG but ranking junior to the claims of Senior Creditors and on the assumption that the amount that such holder was entitled to receive in respect of each Notional Preference Share is an amount equal to the principal amount of the Additional Tier 1 Securities together with, to the extent not otherwise included within the foregoing, any other amounts attributable to the Additional Tier 1 Securities, including any Accrued Interest and any damages awarded for breach of any obligations, regardless of whether the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable.

“Senior Creditors” means creditors of LBG (i) who are unsubordinated creditors, (ii) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of LBG but not further or otherwise, or (iii) whose claims are, or are expressed to be, junior to the claims of other creditors of LBG (whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of Securityholders) in a Winding-up or Administration Event prior to a Trigger Event.

If a Winding-up or Administration Event occurs at any time on or following the date on which a Trigger Event occurs but the Settlement Shares to be issued and delivered to the Settlement Share Depository (as defined below) on the Conversion Date have not been so delivered, there shall be payable by LBG in respect of each Additional Tier 1 Security (in lieu of any other payment by LBG) such amount, if any, as would have been payable to the holder of such Note in a Winding up or Administration Event if the Conversion Date in respect of the Automatic Conversion had occurred immediately before the occurrence of a Winding-up or Administration Event (ignoring for this purpose LBG’s right to make an election for a Settlement Shares Offer to be effected), regardless of whether the Solvency Condition is satisfied on such date.

The “Conversion Date” shall be the date specified in the Conversion Trigger Notice (as defined below) and shall occur without delay upon the occurrence of a Trigger Event.

Optional Redemption

The Additional Tier 1 Securities will, subject to the satisfaction of the conditions described under “—Redemption Conditions” below, be redeemable in whole, but not in part, at the option of LBG on the First Call Date or on any Reset Date thereafter thereafter at 100% of their principal amount, together with any accrued and unpaid interest on the Additional Tier 1 Securities, excluding any interest which has been canceled or deemed to be canceled (“Accrued Interest”) to, but excluding, the date fixed for redemption.

Tax Redemption

If at any time a Tax Event has occurred and is continuing,

11

TABLE OF CONTENTS

LBG may, subject to the satisfaction of the conditions described under “—Redemption Conditions” below, redeem the Additional Tier 1 Securities in whole but not in part at any time at 100% of their principal amount, together with any Accrued Interest to, but excluding, the date fixed for redemption.

A “Tax Event” is deemed to have occurred if:

(1) as a result of a Tax Law Change, in making any payments on the Additional Tier 1 Securities, LBG has paid or will or would on the next payment date be required to pay any Additional Amounts to any holder pursuant to “Description of the Additional Tier 1 Securities—Additional Amounts” and/or

(2) a Tax Law Change would:

(i) result in LBG not being entitled to claim a deduction in respect of any payments in respect of the Additional Tier 1 Securities in computing our taxation liabilities or materially reduce the amount of such deduction;

(ii) prevent the Additional Tier 1 Securities from being treated as loan relationships for United Kingdom tax purposes;

(iii) as a result of the Additional Tier 1 Securities being in issue, result in LBG not being able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Additional Tier 1 Securities or any similar system or systems having like effect as may from time to time exist);

(iv) result in a United Kingdom tax liability, or the receipt of income or profit which would be subject to United Kingdom tax, in respect of a write-down of the principal amount of the Additional Tier 1 Securities or the conversion of the Additional Tier 1 Securities into Ordinary Shares; or

(v) result in an Additional Tier 1 Security or any part thereof being treated as a derivative or an embedded derivative for United Kingdom tax purposes,

in each case, provided that, LBG could not avoid the foregoing in connection with the Additional Tier 1 Securities by taking measures reasonably available to it.

“Tax Law Change” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom, or any political

TABLE OF CONTENTS

subdivision or authority therein or thereof, having the power to tax, including any treaty to which the United Kingdom is a party, or any change in any generally published application or interpretation of such laws, including a decision of any court or tribunal, or any change in the generally published application or interpretation of such laws by any relevant tax authority or any generally published pronouncement by any tax authority, which change, amendment or pronouncement (x) (subject to (y)) becomes, or would become, effective on or after the Issue Date, or (y) in the case of a change or proposed change in law, if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by United Kingdom Act of Parliament or implemented by statutory instrument, on or after the Issue Date.

Regulatory Redemption

If at any time a Regulatory Event has occurred and is continuing, LBG may, subject to the satisfaction of the conditions described under “—Redemption Conditions” below, redeem the Additional Tier 1 Securities in whole but not in part at any time at 100% of their principal amount, together with any Accrued Interest to, but excluding, the date fixed for redemption.

A “Regulatory Event” will occur if at any time LBG determines that as a result of a change (or prospective future change which the Relevant Regulator (as defined below) considers to be sufficiently certain) to the regulatory classification of the Additional Tier 1 Securities under the Applicable Regulations, in any such case becoming effective on or after the Issue Date, all of the outstanding aggregate principal amount of the Additional Tier 1 Securities fully ceases (or would fully cease) to be included in, or count towards, the Tier 1 Capital (howsoever defined in the Applicable Regulations) of the Group.

Redemption Conditions

Any redemption of the Additional Tier 1 Securities as described above is subject to:

(i) LBG giving notice to the Relevant Regulator and the Relevant Regulator granting permission to LBG to redeem the relevant Additional Tier 1 Securities (in each case to the extent, and in the manner, required by the relevant Applicable Regulations);

(ii) in respect of any redemption proposed to be made prior to the fifth anniversary of the Issue Date, if and to the extent then required under the Applicable Regulations (A) in the case of redemption following the occurrence of a Tax Event, LBG having demonstrated to the satisfaction of the Relevant Regulator that the relevant change or event is material and was not reasonably foreseeable by LBG as at the Issue Date or (B) in the case of redemption following the occurrence of a Regulatory Event, LBG having demonstrated to the satisfaction of the Relevant Regulator that the relevant change was not reasonably foreseeable by LBG as at the Issue Date;

TABLE OF CONTENTS

(iii) the satisfaction of the Solvency Condition both immediately prior to and immediately following the redemption date;

(iv) a Conversion Trigger Notice not having been given; and

(v) compliance by LBG with any alternative or additional pre-conditions set out in the relevant Applicable Regulations for the time being.

Trigger Event

A “Trigger Event” shall occur on the date on which LBG determines that the CET1 Ratio as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may be, is less than 7.00% on such date.

“CET1 Ratio” means the ratio as published in respect of each Quarterly Financial Period End Date or any Extraordinary Calculation Date, the ratio of Group’s CET1 Capital as of such date to Risk Weighted Assets as of the same such date, expressed as a percentage and on the basis that all measures used in such calculation shall be calculated on a fully loaded basis.

“Extraordinary Calculation Date” means any day (other than a Quarterly Financial Period End Date) on which the CET1 Ratio is calculated upon the instruction of the Relevant Regulator or at LBG’s discretion.

“Quarterly Financial Period End Date” means the last day of each fiscal quarter of LBG.

“CET1 Capital” means, as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, the sum, expressed in sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Group as at such date, less any deductions from Common Equity Tier 1 Capital of the Group required to be made as at such date, in each case as calculated by LBG on a consolidated and fully loaded basis in accordance with the Applicable Regulations applicable to the Group as at such date (which calculation shall be binding on the Trustee and Securityholders).

“Common Equity Tier 1 Capital” shall have the meaning ascribed to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Applicable Regulations then applicable to the Group;

“fully loaded” means, in relation to a measure that is presented or described as being on a “fully loaded basis”, that such measure is calculated without applying the transitional provisions set out in Part Ten of the Regulation (as may be amended from time to time).

TABLE OF CONTENTS

Conversion Price The conversion price per Ordinary Share in respect of the Additional Tier 1 Securities shall be \$1.072, subject to the adjustments described under “Description of the Additional Tier 1 Securities—Anti-dilution Adjustment of the Conversion Price”.

Automatic Conversion Upon the occurrence of the Trigger Event, each Additional Tier 1 Security shall, on the Conversion Date, be converted in whole and not in part into Ordinary Shares credited as fully paid (the “Settlement Shares”) at the Conversion Price and in accordance with the terms set forth herein. The Settlement Shares shall be issued and delivered to the Settlement Share Depository on the Conversion Date, in consideration for which all of LBG’s obligations under the Additional Tier 1 Securities shall be irrevocably and automatically released (the “Automatic Conversion”), and under no circumstances shall LBG’s released obligations be reinstated.

On the Conversion Date, the Settlement Shares shall be issued and delivered by LBG to the Settlement Share Depository (or as otherwise provided by the Indenture and the Additional Tier 1 Securities) on terms permitting a Settlement Shares Offer and, provided the Settlement Shares are so issued and delivered, no Additional Tier 1 Securityholder will have any rights against LBG with respect to the repayment of the principal amount of the Additional Tier 1 Securities or the payment of interest or any other amount on or in respect of such Additional Tier 1 Securities, which liabilities of LBG shall be automatically released. Accordingly, the principal amount of the Additional Tier 1 Securities shall equal zero at all times thereafter (although the Tradable Amount (as defined below) shall remain unchanged). Any interest in respect of an interest period ending on any Interest Payment Date falling between the Trigger Event and the Conversion Date shall be deemed to have been canceled upon the occurrence of such Trigger Event and shall not be due and payable.

Provided that LBG issues and delivers the Settlement Shares to the Settlement Share Depository in accordance with the terms of the Additional Tier 1 Securities as described herein, with effect from and on the Conversion Date, Securityholders shall have recourse only to the Settlement Share Depository for the delivery to them of Settlement Shares, ADSs or, if applicable, the Alternative Consideration. Subject to the occurrence of a Winding-up or Administration Event on or following a Trigger Event, if LBG fails to issue and deliver the Settlement Shares upon Automatic Conversion to the Settlement Share Depository on the Conversion Date, a holder’s only right under the Additional Tier 1 Securities will be to claim to have such Settlement Shares so issued and delivered.

The Settlement Shares to be issued and delivered shall

TABLE OF CONTENTS

(except where LBG has been unable to appoint a Settlement Share Depository) initially be registered in the name of the Settlement Share Depository, which, subject to a Settlement Shares Offer, shall hold such Settlement Shares on behalf of the Securityholders. By virtue of its holding of any Additional Tier 1 Security, each Securityholder shall be deemed to have irrevocably directed LBG to issue and deliver the Settlement Shares corresponding to the conversion of its holding of Additional Tier 1 Securities to the Settlement Share Depository.

Following the issuance and delivery of the Settlement Shares to the Settlement Share Depository on the Conversion Date, the Additional Tier 1 Securities shall remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Settlement Shares, ADSs or the Alternative Consideration, as the case may be, from the Settlement Share Depository. LBG currently expects that beneficial interests in the Additional Tier 1 Securities will be transferrable until the Suspension Date and that any trades in the Additional Tier 1 Securities would clear and settle through DTC until such date. However, there is no guarantee that an active trading market will exist for the Additional Tier 1 Securities following the Automatic Conversion. The Additional Tier 1 Securities may cease to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange or any other stock exchange on which the Additional Tier 1 Securities are then listed or admitted to trading after the Suspension Date.

Subject to the conditions described under "Description of the Additional Tier 1 Securities—Conversion—Conversion Procedures, the Settlement Shares, ADSs or Alternative Consideration will be delivered to Securityholders on the Settlement Date and the Additional Tier 1 Securities shall be canceled on the Cancellation Date.

Settlement Shares Offer

Within ten (10) Business Days following the Conversion Date, LBG may, in its sole and absolute discretion, elect that the Settlement Share Depository (or an agent on its behalf) make an offer of, in LBG's sole and absolute discretion, all or some of the Settlement Shares to, at LBG's sole and absolute discretion, all or some of LBG's ordinary shareholders upon Automatic Conversion, such offer to be at a cash price per Settlement Share that will be no less than the Conversion Price (translated from U.S. dollars into pounds sterling at the then-prevailing rate as determined by LBG in its sole discretion) (the "Settlement Shares Offer"). Such election shall be made through the delivery of a "Settlement Shares Offer Notice" to the Trustee directly and to the Securityholders. If so elected, the Settlement Shares Offer Notice shall specify (i) the period of time for which the Settlement Shares Offer shall be made (the "Settlement Shares Offer Period"), which shall end no later than forty (40) Business Days after the delivery of the Settlement

TABLE OF CONTENTS

Shares Offer Notice, and (ii) the date on which DTC shall suspend all clearance and settlement of transactions in the Additional Tier 1 Securities in accordance with its rules and procedures (the “Suspension Date”), if the Suspension Date has not previously been specified in the Conversion Trigger Notice.

Upon expiry of the Settlement Shares Offer Period, the Settlement Share Depository will provide notice to the Securityholders of the composition of the Alternative Consideration (and of the deductions to the cash component, if any, of the Alternative Consideration (as set out in the definition of Alternative Consideration)) per \$1,000 Tradable Amount of the Additional Tier 1 Securities. The Alternative Consideration will be held by the Settlement Share Depository on behalf of the Securityholders and will be delivered to Securityholders pursuant to the procedures set forth under “—Settlement Procedures” below.

The cash component of any Alternative Consideration shall be payable by the Settlement Share Depository to the Securityholders whether or not the Solvency Condition is satisfied.

Agreement with Respect to the Exercise of the UK Bail-in Power The PRA has requested LBG to include the following provision as a term of the Additional Tier 1 Securities in accordance with the requirements envisaged in Article 50 of the legislative proposal of the European Commission for a directive providing for the establishment of a European-wide framework for the recovery and resolution of credit institutions and investment firms (the “Recovery and Resolution Directive” or “RRD”).

By its acquisition of the Additional Tier 1 Securities, each Additional Tier 1 Securityholder acknowledges, agrees to be bound by and consents to the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority that may result in the cancellation of all, or a portion, of the principal amount of, or interest on, the Additional Tier 1 Securities and/or the conversion of all, or a portion, of the principal amount of, or interest on, the Additional Tier 1 Securities into (a) Ordinary Shares or (b) other securities or obligations of LBG or another person, including by means of a variation to the terms of the Additional Tier 1 Securities, in each case to give effect to the exercise by the Relevant UK Resolution Authority of such UK Bail-in Power. References to principal and interest shall include payments of principal and interest that have become due and payable, but which have not been paid, prior to the exercise of any UK Bail-in Power. The rights of the Securityholders are subject to, and will be varied, if necessary, solely to give effect to the provisions of any UK Bail-in Power which are expressed to implement such a cancellation or conversion.

TABLE OF CONTENTS

“Relevant UK Resolution Authority” means any authority with the ability to exercise a UK Bail-in Power within the United Kingdom.

“UK Bail-in Power” means any statutory write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to LBG or other members of the Group, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a EU directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a UK resolution regime by way of amendment to the Banking Act through the Banking Reform Act or otherwise pursuant to which obligations of a credit institution or investment firm or any of its affiliates can be canceled and/or converted into shares or other securities or obligations of the obligor or any other person.

Repayment of Principal and Payment of Interest After Exercise of a UK Bail-in Power

No payment of principal following any proposed redemption of the Additional Tier 1 Securities or payment of interest on the Additional Tier 1 Securities shall become due and payable after the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by LBG under the laws and regulations of the UK and the EU applicable to LBG and the Group.

Enforcement Events and Remedies

The occurrence of a Winding-up or Administration Event prior to the occurrence of a Trigger Event.

If a Winding-up or Administration Event prior to the occurrence of a Trigger Event, subject to the subordination provisions described herein, the principal amount of the Additional Tier 1 Securities will become immediately due and payable. For the avoidance of doubt, as the principal amount of the Additional Tier 1 Securities will become immediately due and payable upon such a Winding-up or Administration Event, neither the Trustee nor the Securityholders are required to declare such principal amount to be due and payable.

Non-payment of principal when due.

Subject to the satisfaction of any redemption conditions described herein, if LBG does not make payment of principal in respect of the Additional Tier 1 Securities for a period of seven (7) calendar days or more after the date on which such

TABLE OF CONTENTS

payment is due, then the Trustee, on behalf of the Securityholders, may, at its discretion, or shall at the direction of holders of 25% of the aggregate principal amount of outstanding Additional Tier 1 Securities, subject to any applicable laws, institute proceedings for the winding up of LBG. In the event of a winding-up or liquidation of LBG, whether or not instituted by the Trustee, the Trustee may prove the claims of the Securityholders and the Trustee in the winding up proceeding of LBG and/or claim in the liquidation of LBG, such claims as set out under Description of the Additional Tier 1 Securities—Ranking and Liquidation Distribution”. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Additional Tier 1 Securities to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and unpaid on the Additional Tier 1 Securities.

Breach of a Performance Obligation.

In the event of a breach of any term, obligation or condition binding on us under the Additional Tier 1 Securities or the Indenture (other than any payment obligation of LBG under or arising from the Additional Tier 1 Securities or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligations) (a “Performance Obligation”); the Trustee may without further notice institute such proceedings against us as it may think fit to enforce the Performance Obligation, provided that we shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Additional Tier 1 Securities or the Indenture.

No other remedies

Other than the limited remedies specified above, no remedy against us shall be available to the Trustee or the Securityholders, provided that (1) Trustee and the Securityholders shall have such rights and powers as they are required to have under the Trust Indenture Act, including the right of any Securityholder to institute proceedings for the enforcement of any payments of principal and interest when due, subject to the subordination provisions set forth in the Indenture and (2) such limitations shall not apply to LBG’s obligations to pay the fees and expenses of, and to indemnify, the Trustee and the Trustee’s rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in the Indenture.

There are no events of default under the Additional Tier 1 Securities. In addition, under the terms of the Indenture, neither the Automatic Conversion nor the exercise of the UK Bail-in Power by the Relevant UK Resolution Authority with

TABLE OF CONTENTS

respect to the Additional Tier 1 Securities will be an Enforcement Event.

Book-Entry Issuance, Settlement and Clearance

The Additional Tier 1 Securities will be represented by one or more global securities registered in the name of a nominee of DTC. You will hold beneficial interests in the Additional Tier 1 Securities through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg, and DTC and its direct and indirect participants will record your beneficial interest on their books.

Trustee, Paying Agent and Calculation Agent

The Bank of New York Mellon, a banking corporation duly organized and existing under the laws of the state of New York, acting through its London branch, having its corporate trust office at One Canada Square, London E14 5AL, United Kingdom, will act as the Trustee and will act as initial Paying Agent and Calculation Agent for the Additional Tier 1 Securities.

Listing

We expect to apply to the Irish Stock Exchange to admit the Additional Tier 1 Securities to the Official List and to trading on the Global Exchange Market, the exchange regulated market of the Irish Stock Exchange for listing of the Additional Tier 1 Securities within two months of the Settlement Date.

Governing Law

The Capital Securities Indenture (as defined below), the First Supplemental Indenture (as defined below) and the Additional Tier 1 Securities are governed by, and construed in accordance with, the laws of the State of New York, except for the subordination provisions, which are governed by Scots law.

TABLE OF CONTENTS

RISK FACTORS

Prospective investors should consider carefully the risk factors incorporated by reference into this prospectus and as set out below as well as the other information set out elsewhere in this prospectus (including any other documents incorporated by reference herein) and reach their own views prior to making any investment decision with respect to the Exchange Offer and the Additional Tier 1 Securities.

Set out below and incorporated by reference herein are certain risk factors which could have a material adverse effect on LBG's business, operations, financial condition or prospects and cause LBG's future results to be materially different from expected results. LBG's results could also be affected by competition and other factors. These factors should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties LBG faces. The Offerors and LBG have described only those risks relating to LBG's operations, the Exchange Offer or an investment in the Additional Tier 1 Securities that they consider to be material. There may be additional risks that the Offerors and/or LBG currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth below. All of these factors are contingencies which may or may not occur and neither the Offerors nor LBG are not in a position to express a view on the likelihood of any such contingency occurring. Each of the highlighted risks could adversely affect the trading price of the Additional Tier 1 Securities or the rights of investors under the Additional Tier 1 Securities and, as a result, investors could lose some or all of their investment. You should consult your own financial, tax and legal advisers regarding the risks of participating in the Exchange Offer and of an investment in the Additional Tier 1 Securities. As part of making an investment decision, investors should make sure to thoroughly understand the terms of the Additional Tier 1 Securities, such as the provisions governing the Automatic Conversion (including, in particular, the circumstances under which a Trigger Event may occur), the agreement by you to be bound by the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority, that interest is due and payable only at the sole discretion of LBG, and that there is no scheduled repayment date for the principal of the Additional Tier 1 Securities.

The Offerors and LBG believe that the factors described below represent the principal risks inherent in the Exchange Offer and in investing in the Additional Tier 1 Securities, but neither the Offerors nor LBG represent that the statements below regarding the risks of the Exchange Offer or of holding the Additional Tier 1 Securities 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.

Risks relating to LBG and the Group

For a description of the risks associated with LBG and the Group, see the section entitled "Risk Factors" of LBG's Annual Report on Form 20-F for the fiscal year ended December 31, 2013, which is incorporated by reference herein.

Risks relating to the Exchange Offer

The ECNs contain a Regulatory Call Right and the relevant Regulatory Call Price may be substantially lower than the Exchange Consideration.

The ECNs were issued for the purpose of counting as both lower tier 2 capital and "stress test" core capital of the Group. Pursuant to the terms of the ECNs, should any series of ECNs cease to qualify for inclusion in the lower tier 2 capital of the Group or, as a result of changes to the Regulatory Capital Requirements (as defined in the ECNs) or the interpretation or application thereof by the PRA, cease to be taken into account for the purposes of any "stress test"

applied by the PRA, in each case as more fully described in Condition 8(e) of the relevant ECNs, the relevant Offeror has the Regulatory Call Right.

In 2009, the Group was required by the FSA to raise going concern capital sufficient to remain a viable banking group in the event of various stress scenarios by reinforcing the Group's capital ratios in stress conditions; the ECNs formed part of that capital raising. As described above, if the ECNs cease to fulfil this purpose, the Group has the Regulatory Call Right.

TABLE OF CONTENTS

There can be no assurance that the ECNs will continue to count for the purposes of “stress tests” to be applied by the PRA to the Group. Whilst still uncertain, management of LBG believes recent developments resulting in higher capital requirements for banks, including a changed definition of core capital, make it likely that the ECNs will not provide going concern benefit under future stress tests.

Holder should be aware that, in the event an Offeror exercises the Regulatory Call Right, pursuant to the terms of the relevant series of ECNs, such call will be exercised at par, together with accrued but unpaid interest (the “Regulatory Call Price”). For most series of ECNs, the relevant Regulatory Call Price is substantially lower than the Exchange Consideration pursuant to the Exchange Offer.

The Regulatory Call Right applies to each separate series of ECNs and, where available, the relevant Offeror may choose which individual series to call.

The Regulatory Call Right applies to each separate series of ECNs. Notice of redemption pursuant to the Regulatory Call Right would be required to be given on a per-series basis. Such notice may be given in relation to any one or more series of ECNs without triggering the redemption of any remaining series of ECNs. If the Regulatory Call Right were, by its terms, ever to become exercisable and the relevant Offeror wished to make use of it, LBG and the Offerors currently intend that they would prioritize the redemption of those series of ECNs, some part of which series is accepted for exchange in the Exchange Offer, or which rank in the relevant Exchange Priority ahead of those series of ECNs which have been so accepted for exchange, except if the relevant series of ECNs is pro-rated by the relevant Offeror pursuant to the Exchange Offer.

The trading markets for the ECNs may be adversely affected by the Exchange Offer.

The trading markets for the ECNs that remain outstanding following the completion of the Exchange Offer may be characterized by significantly lower levels of liquidity than before the Exchange Offer. Such outstanding ECNs may command a lower price than a comparable issue of securities with greater market liquidity. A reduced market value may also make the trading price of the remaining ECNs more volatile. As a result, the market price for the ECNs that remain outstanding after the completion of the Exchange Offer may be materially and adversely affected as a result of the Exchange Offer. In addition, it is possible that the credit ratings of certain of the ECNs may be affected, although it is not expected that any such changes would affect adversely other credit ratings of Group companies.

The ECNs are admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange’s Regulated Market, but some or all series of ECNs may not be actively traded. Quotations for securities that are not widely traded, such as the ECNs, may differ from actual trading prices and should be viewed as approximations. Investors are urged to contact their brokers with respect to current market prices for the ECNs.

There are significant differences between the ECNs and the Additional Tier 1 Securities.

The terms of the Additional Tier 1 Securities will be substantially different from those of the ECNs. In addition to differences in financial terms which include, among others, the coupon and payment dates, the terms of the Additional Tier 1 Securities differ in respect of maturity, redemption dates, redemption prices, the identity of the obligor, the trigger point (including the relevant capital ratio) for Automatic Conversion, interest cancellation and ranking. For example, the Additional Tier 1 Securities are perpetual securities and have no fixed maturity date or fixed or other redemption date, and interest payments in respect of the Additional Tier 1 Securities are subject to the Solvency Condition, the availability of Distributable Items and restrictions on distributions if the Group does not meet its combined buffer requirements under CRD IV and may be canceled in whole or in part at the sole discretion of LBG,

and if a Winding-up or Administration Event occurs prior to the occurrence of a Trigger Event, holders will rank pari passu with the holders of LBG's most senior class or classes of issued preference shares in the capital of LBG from time to time (if any). In contrast, certain series of ECNs have fixed maturity dates, certain series of the ECNs provide that the relevant guarantor may procure the relevant issuer to elect to defer, rather than cancel, interest payments except in certain limited circumstances, and upon a winding-up or appointment of an administrator in respect of the relevant guarantor, holders of the ECNs will rank at least pari passu with the claims of holders of all other subordinated obligations of the relevant issuer and in priority to the claims of holders of all undated or perpetual subordinated obligations and all classes of share capital of the relevant issuer.

TABLE OF CONTENTS

Investors should carefully consider the differences described in the preceding paragraph in addition to those described under “Comparison of Certain Material Terms of the Enhanced Capital Notes and the Additional Tier 1 Securities” in deciding whether to tender ECNs for exchange in connection with the Exchange Offer.

The Additional Tier 1 Securities will be delivered in the form of book-entry securities at DTC regardless of the Clearing System(s) in which the ECNs are deposited.

Because transfers of interests in the global notes that will represent the Additional Tier 1 Securities can be effected only through book entries at DTC (and, through it, Clearstream, Luxembourg and Euroclear) for the accounts of their respective participants, the liquidity of any secondary market for investments in the Additional Tier 1 Securities may be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of a participant in Clearstream, Luxembourg, Euroclear or DTC, as applicable. See “Description of the Additional Tier 1 Securities—Form of Additional Tier 1 Securities, Clearance and Settlement”. In the event of the insolvency of Clearstream, Luxembourg, Euroclear, DTC or any of their respective participants in whose name interests in the Additional Tier 1 Securities are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Additional Tier 1 Securities may be impaired.

ECNs may be acquired by the Offerors, LBG or their affiliates other than through the Exchange Offer in the future.

The Exchange Offer relates to a principal amount of the ECNs up to the Maximum New Issue Size. From time to time in the future, to the extent permitted by applicable law, the Offerors, LBG or their affiliates may acquire ECNs that remain outstanding, whether or not the Exchange Offer is consummated, through tender offers, exchange offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the price to be paid pursuant to the Exchange Offer and could be for cash or other consideration. There can be no assurance as to which, if any, of these alternatives (or combinations thereof) the Offerors, LBG or their affiliates may pursue.

Legality of purchase.

None of the Offerors, LBG, the Dealer Managers or any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Additional Tier 1 Securities by a prospective investor of the Additional Tier 1 Securities, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

As the Additional Tier 1 Securities have no scheduled maturity, a holder who exchanges ECNs with a maturity date for Additional Tier 1 Securities may ultimately find that LBG is able to repay the ECNs remaining outstanding following completion of the Exchange Offer when they mature, but are unable to repay or refinance the Additional Tier 1 Securities .

The Additional Tier 1 Securities that you are being offered are perpetual securities and have no fixed maturity date or fixed redemption date, whereas the Series 1 ECNs and the Series 4 ECNs that you presently own have a maturity date. If you decide to tender the Series 1 ECNs and the Series 4 ECNs, you will be exposed to LBG’s credit risk for a longer period of time than if you did not tender such ECNs. There can be no assurance that tendering eligible holders of such ECNs will not be adversely affected by the extension of maturity resulting from exchanging such ECNs for Additional Tier 1 Securities.

Failure by a holder to comply with the procedures for participating in the Exchange Offer may result in the holder being excluded from participation.

Holders are responsible for complying with all of the procedures for submitting Exchange Instructions pursuant to the terms of this prospectus. In particular, holders should note that only one Exchange Instruction may be submitted by or on behalf of a beneficial owner in respect of a particular series of ECNs. Multiple Exchange Instructions submitted by or on behalf of a beneficial owner in respect of any one series of ECNs will be invalid and may be rejected by the relevant Offeror. None of the Offerors, LBG, the Dealer Managers or the Exchange Agent assumes any responsibility for informing holders of irregularities with respect to Exchange Instructions from such holders.

TABLE OF CONTENTS

The Offerors may not accept all ECNs validly tendered for exchange in the Exchange Offer.

The Offerors will, if they accept any tenders, accept tenders that will result in issuing Additional Tier 1 Securities in an aggregate principal amount that is no greater than the Maximum New Issue Size, unless such limit is increased, decreased or waived, subject to applicable law. Depending on the aggregate principal amount of ECNs validly tendered in the Exchange Offer, the Offerors may have to accept ECNs in accordance with the Exchange Priority and may have to prorate or reject certain of the ECNs tendered in the Exchange Offer to remain within this limit. See “The Exchange Offer—Terms of the Exchange Offer—Acceptance of ECNs; Exchange Priority”.

Subject to applicable law, tenders of ECNs may be rejected by the Offerors and the Offerors are not under any obligation to holders to furnish any reason or justification for refusing to accept a tender of ECNs. For example, ECNs may be rejected if the Exchange Offer is terminated, if the Exchange Offer does not comply with the relevant requirements of a particular jurisdiction, if any of the conditions to the Exchange Offer are not met, or for other reasons.

The Exchange Offer may be extended, reopened, amended, limited, terminated or withdrawn at any time, subject to applicable law, and any such action may adversely affect any perceived benefits of the Exchange Offer.

Completion of the Exchange Offer is conditional upon the satisfaction or waiver of the conditions to the Exchange Offer set out herein. In addition, subject as provided herein, the Offerors may, subject to applicable law, extend, re-open, amend, terminate or withdraw the Exchange Offer at any time prior to the announcement of whether it accepts valid tenders of ECNs. For details, see “The Exchange Offer—Amendment and Termination”.

Submitting an Exchange Instruction will restrict a holder’s ability to transfer its ECNs.

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

A holder’s failure to consult its own advisors may result in it suffering adverse tax, accounting, financial or legal consequences.

Holders should consult their own tax, accounting, financial and legal advisers as they may deem appropriate regarding the suitability to themselves of the tax, accounting, financial and legal consequences of participating or declining to participate in the Exchange Offer and an investment in the Additional Tier 1 Securities. In particular, due to the number of different jurisdictions where tax laws may apply to a holder and save as set out under “Taxation Considerations”, this prospectus does not discuss the tax consequences for holders arising from the exchange of their ECNs in the Exchange Offer and the receipt of Additional Tier 1 Securities. Holders are urged to consult their own professional advisers regarding the possible tax consequences under the laws of the jurisdictions that apply to them. Holders are liable for their own taxes and have no recourse to the Offerors, LBG, the Dealer Managers or the Exchange Agent with respect to taxes arising in connection with the Exchange Offer.

The exchange of ECNs for Additional Tier 1 Securities may be a taxable exchange for U.S. Holders.

The U.S. federal income tax consequences to a U.S. Holder who exchanges ECNs for Additional Tier 1 Securities will depend in part on the U.S. federal income tax characterization of both the ECNs and the Additional Tier 1 Securities, including in the case of the ECNs, whether they should be treated as securities of LBG or the relevant issuer. In particular, if the ECNs are treated as securities of the relevant issuers, their exchange for Additional Tier 1 Securities will generally be taxable for U.S. federal income tax purposes. The exchange of ECNs for Additional Tier 1 Securities would generally not be taxable for U.S. federal income tax purposes only if the ECNs are properly treated as securities of LBG for U.S. federal income tax purposes. The characterization of the ECNs and the Additional Tier 1 Securities for U.S. federal income tax purposes is uncertain because there are no regulations, published rulings or judicial decisions addressing the proper characterization of securities with terms

TABLE OF CONTENTS

substantially the same as the ECNs or the Additional Tier 1 Securities and no rulings have or will be sought from the Internal Revenue Service regarding the characterization of the ECNs or the Additional Tier 1 Securities. Due to the lack of authorities on point, Counsel is unable to opine as to the likelihood that the ECNs would be treated as issued by LBG. U.S. Holders should consult their tax advisers concerning the possible alternative characterizations of the ECNs, including who should be treated as the issuer of the ECNs and the resulting tax consequences of the exchange. See also “Taxation Considerations—Material U.S. Federal Income Tax Considerations”.

The Offerors have not obtained a third-party determination that the Exchange Offer is fair to the holders.

No one is making a recommendation as to whether holders should exchange ECNs in the Exchange Offer. The Offerors have not retained, and do not intend to retain, any unaffiliated representative to act on behalf of the holders for purposes of negotiating the Exchange Offer or preparing a report concerning the fairness of the Exchange Offer. Holders must make their own independent decision regarding participation in the Exchange Offer.

Risks relating to the Additional Tier 1 Securities

The Additional Tier 1 Securities will be subject to Automatic Conversion following the occurrence of a Trigger Event, in which case the Additional Tier 1 Securities will be converted into Settlement Shares.

Upon the occurrence of the Automatic Conversion following a Trigger Event (each as defined under “Description of the Additional Tier 1 Securities—Conversion—Automatic Conversion”), the Additional Tier 1 Securities will be converted into Settlement Shares on the Conversion Date; once the Settlement Shares have been issued and delivered to the Settlement Share Depository, all of LBG’s obligations under the Additional Tier 1 Securities shall be irrevocably and automatically released and under no circumstances shall such released obligations be reinstated. As a result, you could lose all or part of the value of your investment in the Additional Tier 1 Securities, as, following the Automatic Conversion, you will receive only (i) the Settlement Shares or ADSs (if LBG does not elect that a Settlement Shares Offer be made), or (ii) the Alternative Consideration, which shall be composed of Settlement Shares, ADSs and/or cash depending on the results of the Settlement Shares Offer (if LBG elects that a Settlement Shares Offer be made) and the value of any Settlement Shares or ADSs received upon Automatic Conversion may have a market value significantly below the principal amount of the Additional Tier 1 Securities you hold. Although the market value of the Settlement Shares or ADSs you receive could over time increase in value, at the time the Settlement Shares are issued, the Conversion Price may not reflect the market price of LBG’s Ordinary Shares, which could be significantly lower than the Conversion Price. Furthermore, upon the occurrence of the Automatic Conversion, you will no longer have a debt claim in relation to principal and any accrued but unpaid interest on the Additional Tier 1 Securities shall be canceled and shall not become due and payable at any time.

Any such Automatic Conversion will be irrevocable and, upon the occurrence of the Automatic Conversion, holders will not be entitled to any form of compensation in the event of LBG’s potential recovery or change in LBG’s fully loaded CET1 Ratio. In addition, on or after the occurrence of a Trigger Event, if LBG does not deliver Settlement Shares to the Settlement Share Depository, the only claims holders will have against LBG will be for specific performance to have such Settlement Shares issued and delivered to the Settlement Share Depository and to participate in the liquidation proceeds of LBG as if the Settlement Shares had been issued. Once the Settlement Shares have been issued and delivered to the Settlement Share Depository, the only claims holders will have will be against the Settlement Share Depository for delivery of Settlement Shares, ADSs or Alternative Consideration, as applicable.

A Trigger Event shall occur if LBG determines that its CET1 Ratio (which will be calculated on a consolidated and fully loaded basis) as at any Quarterly Financial Period End Date or Extraordinary Calculation Date, as the case may

be, is less than 7.00% on such date.

“CET1 Ratio” means, as of the relevant calculation date, the ratio of CET1 Capital as of such date to the Risk Weighted Assets as of the same date, calculated on a fully loaded basis and expressed as a percentage, each as defined under “Description of the Additional Tier 1 Securities—Conversion—Automatic Conversion”.

For a discussion of the risks associated with the calculation of LBG’s CET1 Ratio see “—For the purposes of the Trigger Event, the CET1 Ratio will be calculated on a “fully loaded” basis. This will result in a lower calculated CET Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term.

TABLE OF CONTENTS

Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect LBG's CET1 Ratio, thereby increasing the risk of a Trigger Event which will lead to the Automatic Conversion, as a result of which your Additional Tier 1 Securities will automatically be converted into Settlement Shares".

The circumstances surrounding or triggering the Automatic Conversion are inherently unpredictable and may be caused by factors outside of LBG's control. LBG has no obligation to operate its business in such a way, or take any mitigating actions, to maintain or restore its CET1 Ratio to avoid a Trigger Event and actions LBG takes could result in its CET1 Ratio falling.

The occurrence of a Trigger Event and, therefore, the Automatic Conversion, is inherently unpredictable and depends on a number of factors, some of which may be outside of LBG's control. Although LBG currently publicly reports the Group's fully loaded CET1 Ratio only as of each quarterly period end, the PRA, or the then relevant regulatory body with primary responsibility for the prudential supervision of LBG and the Group (the "Relevant Regulator"), as part of its supervisory activity, may instruct LBG to calculate such ratio as of any date, including if LBG is subject to recovery and resolution actions by the Relevant UK Resolution Authority (as defined under "Description of the Additional Tier 1 Securities—Redemption and Purchase—Redemption Conditions"), or LBG might otherwise determine to calculate such ratio in its own discretion. As such, the Automatic Conversion could occur at any time. Moreover, it is likely that the Relevant UK Resolution Authority would allow a Trigger Event to occur rather than to resort to the use of public funds.

A Trigger Event could occur at any time if LBG determines that its fully loaded CET1 Ratio is below 7.00% as of any such calculation date. Such calculation could be affected by, among other things, the growth of LBG's business and LBG's future earnings, dividend payments, regulatory changes (including changes to definitions and calculations of regulatory capital, including CET1 Capital and Risk Weighted Assets (each of which shall be calculated by LBG on a fully loaded, consolidated basis and such calculation shall be binding on the Trustee and on the person in whose name the Additional Tier 1 Security is registered (the "Securityholder"))), actions that LBG is required to take at the direction of the Relevant Regulator, and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. Actions that LBG takes could also affect its CET1 Ratio, including causing it to decline. LBG has no obligation to increase its CET1 Capital, reduce its Risk Weighted Assets or otherwise operate its business in such a way, take mitigating actions in order to prevent its CET1 Ratio from falling below 7.00%, to maintain or increase its CET1 Ratio or to otherwise consider the interests of the Securityholders in connection with any of its business decisions that might affect LBG's CET1 Ratio.

The calculation of LBG's CET1 Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the Relevant Regulator could require LBG to reflect such changes in any particular calculation of its CET1 Ratio.

Because of the inherent uncertainty regarding whether a Trigger Event will occur and there being no obligation on LBG's part to prevent its occurrence, it will be difficult to predict when, if at all, Automatic Conversion could occur. Accordingly, the trading behavior of the Additional Tier 1 Securities may not necessarily follow the trading behavior of other types of subordinated securities, including LBG's other subordinated debt securities. Fluctuations in the CET1 Ratio may be caused by changes in the amount of CET1 Capital and Risk Weighted Assets as well as changes to their respective definitions under the capital adequacy standards and guidelines set by the Relevant Regulator. Any

indication that the Group's CET1 Ratio is moving towards the level which would cause the occurrence of a Trigger Event may have an adverse effect on the market price and liquidity of the Additional Tier 1 Securities. Therefore, investors may not be able to sell their Additional Tier 1 Securities easily or at prices that will provide them with a yield comparable to other types of subordinated securities, including LBG's other subordinated debt securities. In addition, the risk of Automatic Conversion could drive down the price of LBG's ordinary shares ("Ordinary Shares") and have a material adverse effect on the market value of Settlement Shares received upon Automatic Conversion.

TABLE OF CONTENTS

For the purposes of the Trigger Event, the CET1 Ratio will be calculated on a “fully loaded” basis. This will result in a lower calculated CET1 Ratio than one using CRD IV transitional provisions, increasing the potential for Conversion in the short term. Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect LBG’s CET1 Ratio, thereby increasing the risk of a Trigger Event which will lead to the Automatic Conversion, as a result of which your Additional Tier 1 Securities will automatically be converted into Settlement Shares.

The Basel Committee on Banking Supervision (the “Basel Committee”) proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “Basel III Reforms”). The implementation of the Basel III Reforms by relevant authorities in the EU consists of a legislative package including a fourth capital requirements Directive and the new CRR, collectively known as “CRD IV”. The CRD IV legislative package was published in the Official Journal of the European Union on June 27, 2013 and on January 1, 2014, the CRR became applicable in the United Kingdom (the “CRD IV Implementation Date”), subject to a series of transitional arrangements described below which are expected to be phased in over a period of time and be fully effective by 2019.

As a result of the changes under CRD IV, LBG is required to calculate its capital resources for regulatory purposes on the basis of “common equity tier 1 capital” instead of “core tier 1 capital” which LBG has historically calculated and published. LBG is also required to calculate its “risk weighted assets”, which represent assets adjusted for their associated risks, on a different basis under CRD IV than LBG did prior to the CRD IV Implementation Date. Each of these definitions will be calculated in accordance with the capital adequacy standards and guidelines of the Relevant Regulator applicable to LBG on the relevant date. The main differences between the calculation of the common equity tier 1 capital base under CRD IV compared to LBG’s core tier 1 capital base under PRA rules and guidelines in effect prior to the CRD IV Implementation Date relate to (i) the treatment of significant investments in the equity of financial sector entities, and (ii) the treatment of deferred tax assets which were previously not restricted in respect of what may be recognized for regulatory purposes.

The CRD IV legislation sets out a minimum pace of introduction of these enhanced capital requirements (the “Transitional Provisions”). The Transitional Provisions are designed to implement certain CRD IV requirements in stages over a prescribed period; however, each of the EU Member States has the discretion to accelerate that minimum pace of transition in certain respects. In the United Kingdom, the PRA has confirmed that it will accelerate the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA’s rules and supervisory statements published on December 19, 2013, the PRA will require the Group to meet certain capital targets within certain prescribed timeframes, without having regard to any Transitional Provisions in that respect. Therefore, for the purposes of the Additional Tier 1 Securities, LBG will calculate its CET1 Capital and Risk Weighted Assets without applying the Transitional Provisions and will instead calculate its CET1 Ratio on a so-called “fully loaded” basis, which is a more stringent basis than under the CRD IV regime and will lead to the CET1 Ratio as defined for purposes of the Additional Tier 1 Securities being lower than it would be were LBG to calculate the common equity tier 1 ratio applying the Transitional Provisions to its calculation of common equity tier 1 capital and risk weighted assets.

At December 31, 2013, LBG’s CET1 Ratio, giving full effect to CRD IV on a fully loaded basis, based on LBG’s interpretation of the current rules and assuming such rules were applied as of December 31, 2013, was estimated to be 10.3%, adjusted to include the benefits of the announced sales of Heidelberger Leben, Scottish Widows Investment Partnership and Sainsbury’s Bank. LBG’s fully loaded CET1 Ratio is a non-IFRS measure, and LBG’s interpretation of CRD IV and the basis of LBG’s calculation of this financial measure may be different from those of other financial institutions. For further information, see the section entitled “Risk Management—Capital Management in 2013” of our

Annual Report on Form 20-F for the year ended December 31, 2013. LBG's estimates are based on a number of assumptions.

The actual impact of CRD IV on capital ratios may be materially different as the CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be developed by the EBA or changes to the way in which the PRA interprets and applies these requirements to UK banks (including as regards individual model approvals granted under CRD II and III). The PRA's supervisory statements SS 3/13 (released on November 29, 2013) and PS 7/13 (released on December 19, 2013) set out the PRA's expectations in relation to capital and leverage ratios (in the case of SS 3/13) and the quality of capital (in the case of PS 7/13). The PRA's policy statement PS 7/13, sets out, among

TABLE OF CONTENTS

other things, changes to the PRA rules in order to implement certain aspects of CRD IV in the UK and PS 7/13, contrary to previous indications from the PRA, stated that UK banks will be able to meet any future Pillar 2A requirements with a blend of regulatory capital, including CET1 Capital, in addition to the minimum capital requirements under CRD IV. Nonetheless, if the PRA rules, guidance or expectations in relation to capital or leverage were to be amended in the future in a manner other than as set out in the statements, and depending on the content of final binding regulatory technical standards developed by the EBA, it could be materially more difficult for the Group to maintain compliance with prudential requirements. Any such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to the Group's capital and may result in a need for further management actions to meet the changed requirements, such as: increasing capital, reducing leverage and risk weighted assets, modifying legal entity structure (including with regard to issuance and deployment of capital and funding for the Group) and changing the Group's business mix or exiting other businesses and/or undertaking other actions to strengthen the Group's capital position.

Investors should be aware that the CRD IV rules and their implementation in the United Kingdom subsequent to the date hereof may individually and/or in the aggregate further negatively affect LBG's CET1 Ratio and thus increase the risk of a Trigger Event, which will lead to the Automatic Conversion. Upon the occurrence of the Automatic Conversion, provided that LBG issues and delivers the Settlement Shares to the Settlement Share Depository in accordance with the terms described herein, investors will have no rights against LBG with respect to the repayment of the principal amount of the Additional Tier 1 Securities or the payment of any accrued and unpaid interest on such Additional Tier 1 Securities. In addition, the realizable value of the Settlement Shares may be below the Conversion Price. Although the market value of the Settlement Shares you receive could over time increase, at the time the Settlement Shares are issued, the Conversion Price may not reflect the market price of LBG's Ordinary Shares, which could be significantly lower than the Conversion Price.

The Additional Tier 1 Securities have no scheduled maturity and Securityholders only have a limited ability to cash in their investment in the Additional Tier 1 Securities.

The Additional Tier 1 Securities are perpetual securities and have no fixed maturity date or fixed redemption date. Although under certain circumstances as described under "Description of the Additional Tier 1 Securities—Redemption and Purchase" LBG may redeem the Additional Tier 1 Securities, LBG is under no obligation to do so and Securityholders have no right to call for their redemption. Therefore, Securityholders have no ability to cash in their investment, except (i) if LBG exercises its rights to redeem the Additional Tier 1 Securities in accordance with their terms and applicable laws, (ii) by selling their Additional Tier 1 Securities or, following the occurrence of a Trigger Event and the issue and delivery of Settlement Shares or ADSs, their Settlement Shares or ADSs (if LBG does not elect that a Settlement Share Offer be made or where the Settlement Shares issued are not all sold pursuant to the Settlement Share Offer), (iii) through the cash component of any Settlement Share Offer, (iv) where the Trustee institutes proceedings for the winding-up of LBG where LBG has exercised its right to redeem the Additional Tier 1 Securities but fails to make payment in respect of such redemption when due, in which limited circumstances the Securityholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior and more senior subordinated creditors, or (v) upon a Winding-up or Administration Event in which limited circumstances the Securityholders may receive some of any resulting liquidation proceeds following payment being made in full to all senior or more senior subordinated creditors.

Interest payments on the Additional Tier 1 Securities are discretionary and LBG may cancel interest payments, in whole or in part, at any time. Canceled interest shall not be due and shall not accumulate or be payable at any time thereafter and investors shall have no rights thereto.

Subject to the Solvency Condition described under “Description of the Additional Tier 1 Securities—Payments—Solvency Condition” and the availability of Distributable Items as described under “Description of the Additional Tier 1 Securities—Payments—Availability of Distributable Items”, interest on the Additional Tier 1 Securities will be due and payable only at the sole discretion of LBG and LBG shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not canceled in accordance with the terms of the Additional Tier 1 Securities. If LBG cancels any scheduled interest payment, such interest payment shall not be or become due and payable at any time thereafter and in no event will Securityholders have any right to or claim against LBG with respect to such interest amount or be able to accelerate the principal of the Additional Tier 1 Securities as a result of such interest cancellation. Furthermore, no cancellation of interest in accordance with the terms of the Indenture shall constitute a default in payment or otherwise under the

TABLE OF CONTENTS

terms of the Additional Tier 1 Securities. There can, therefore, be no assurances that a holder will receive interest payments in respect of the Additional Tier 1 Securities.

For further information on LBG's dividend policy, see our Annual Report on Form 20-F for the year ended December 31, 2013 under the heading "Dividends". The Additional Tier 1 Securities will rank senior to Ordinary Shares. It is the Board of Directors' current intention that, whenever exercising its discretion to declare Ordinary Share dividends, or its discretion to cancel interest on the Additional Tier 1 Securities, the Board will take into account the relative ranking of these instruments in LBG's capital structure. However, the Board may at any time depart from this policy at its sole discretion.

Following cancellation of any interest payment, LBG will not be in any way limited or restricted from making any distribution or equivalent payments in connection with any Parity Securities or Junior Securities, including any dividend payments on LBG's Ordinary Shares or preference shares. LBG may therefore cancel (in whole or in part) any interest payment on the Additional Tier 1 Securities at its discretion and may pay dividends on its ordinary or preference shares or on other additional tier 1 securities notwithstanding such cancellation. In addition, LBG may without restriction use funds that could have been applied to make such canceled payments to meet its other obligations as they become due.

In addition to LBG's right to cancel, in whole or in part, interest payments at any time, the terms of the Additional Tier 1 Securities also restrict LBG from making interest payments on the Additional Tier 1 Securities if LBG has insufficient distributable items (based on its individual accounts and not on its consolidated accounts), in which case such interest shall be deemed to have been canceled.

Subject to the extent permitted in the following paragraphs in respect of partial interest payments, LBG shall not make an interest payment on the Additional Tier 1 Securities on any Interest Payment Date (and such interest payment shall therefore be deemed to have been canceled and thus shall not be due and payable on such Interest Payment Date) (a) to the extent that an amount of Distributable Items on any scheduled Interest Payment Date is less than the sum of (i) all payments (other than redemption payments) made or declared by LBG since the end of LBG's last financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Additional Tier 1 Securities, and any Junior Securities (as defined below) and (ii) all payments (other than redemption payments) payable by LBG on such Interest Payment Date (x) on the Additional Tier 1 Securities and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items, or (b) if the Solvency Condition is not satisfied in respect of such interest payment.

Although LBG may, in its sole discretion, elect to make a partial interest payment on the Additional Tier 1 Securities on any Interest Payment Date, it may only do so to the extent that such partial interest payment may be made without breaching the restrictions in the preceding paragraphs.

Any interest deemed canceled on any relevant Interest Payment Date shall not be due and shall not accumulate or be payable at any time thereafter, and Securityholders shall have no rights thereto or to receive any additional interest or compensation as a result of such deemed cancellation. Furthermore, no cancellation of interest in accordance with the terms of the Indenture shall constitute a default in payment or otherwise under the terms of the Additional Tier 1 Securities.

See also "CRD IV introduces restrictions on distributions that will restrict LBG from making interest payments on the Additional Tier 1 Securities in certain circumstances, in which case LBG will cancel such interest payments".

As a holding company, the level of Distributable Items is affected by a number of factors, and insufficient Distributable Items may restrict LBG's ability to make interest payments on the Additional Tier 1 Securities.

As a holding company, the level of LBG's Distributable Items is affected by a number of factors, principally its ability to receive funds, directly or indirectly, from LBG's operating subsidiaries in a manner which creates Distributable Items. Consequently, LBG's future Distributable Items, and therefore LBG's ability to make interest payments, are a function of LBG's existing Distributable Items, future Group profitability and performance and the ability to distribute or dividend profits from LBG's operating subsidiaries up the Group structure to LBG. In addition, the LBG's Distributable Items will also be reduced by the servicing of other debt and equity instruments.

TABLE OF CONTENTS

The ability of the LBG's subsidiaries to pay dividends and LBG's ability to receive distributions and other payments from LBG's investments in other entities is subject to applicable local laws and other restrictions, including their respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws, and any changes thereto. These laws and restrictions could limit the payment of dividends, distributions and other payments to LBG by LBG's subsidiaries, which could in time restrict LBG's ability to fund other operations or to maintain or increase its Distributable Items.

CRD IV introduces restrictions on distributions that will restrict LBG from making interest payments on the Additional Tier 1 Securities in certain circumstances, in which case LBG will cancel such interest payments.

Under CRD IV, LBG is required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8% of risk weighted assets of which at least 4.5% (4% in 2014) must be CET1 capital and at least 6%(5% in 2014) must be tier 1 capital (together the Pillar 1 requirements). In addition, supervisors may add extra capital requirements to cover risks they believe are not covered or insufficiently covered by the Pillar 1 requirements (the Pillar 2A guidance).

CRD IV also introduces capital buffer requirements that are in addition to the Pillar 1 requirements and Pillar 2A guidance and are required to be met with common equity tier 1 capital. It will introduce five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Group as determined by the PRA. The "combined buffer requirement" broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution) will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to common equity tier 1, variable remuneration and payments on additional Tier 1 instruments).

Under Article 141 (Restrictions on distribution) of the CRD IV Directive, Member States of the EU must require that institutions that fail to meet the "combined buffer requirement" will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to common equity tier 1, variable remuneration and payments on additional tier 1 instruments).

The maximum amount of discretionary payments that are permitted under CRD IV when an institution fails to meet the combined buffer (the "maximum distributable amount") is calculated by multiplying the profits of the institution made since the last distribution or other discretionary payment by a scaling factor. In the bottom quartile of the combined buffer the scaling factor is 0, and all discretionary payments are prohibited. In the second quartile the scaling factor is 0.2, in the third it is 0.4 and in the top quartile it is 0.6. In the event of breach of the combined buffer requirement LBG will be required to calculate its maximum distributable amount, and as a consequence it may be necessary for LBG to reduce discretionary payments, including potentially exercising their discretion to cancel (in whole or in part) interest payments in respect of the Additional Tier 1 Securities.

LBG's capital requirements, including Pillar 2A guidance, are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. Investors may not be able to predict accurately the proximity of the risk of discretionary payments on the Additional Tier 1 Securities being prohibited from time to time as a result of the operation of Article 141. The PRA implementation of Article 141 remains uncertain in certain respects and such uncertainty will remain at least until HM Treasury has designated the authority responsible for setting certain buffers and buffer rates in the United Kingdom and the PRA has published its final supervisory statement on buffer capital.

The Additional Tier 1 Securities may be traded with accrued interest, but under certain circumstances described above, such interest may be canceled and not paid on the relevant Interest Payment Date.

The Additional Tier 1 Securities may trade, and/or the prices for the Additional Tier 1 Securities may appear, on the Global Exchange Market of the Irish Stock Exchange and in other trading systems with accrued interest. If this occurs, purchasers of Additional Tier 1 Securities in the secondary market will pay a price that reflects such accrued interest upon purchase of the Additional Tier 1 Securities. However, if a payment of interest on any Interest Payment Date is canceled or deemed canceled (in each case, in whole or in part) as described herein and thus is not due and payable, purchasers of such Additional Tier 1 Securities will not be entitled to that interest payment (or if

TABLE OF CONTENTS

LBG elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

The interest rate on the Additional Tier 1 Securities will be reset on each Reset Date, which may affect the market value of the Additional Tier 1 Securities.

The Additional Tier 1 Securities will initially earn interest at a fixed rate of 7.5% per annum to, but excluding, the First Call Date. From, and including, the First Call Date, however, and every Reset Date thereafter, the interest rate will be reset to a rate per annum which will equal the aggregate of 4.76% and the then prevailing Mid-Market Swap Rate (as defined under “Description of the Additional Tier 1 Securities—Payments—Interest Rate”). This reset rate could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Additional Tier 1 Securities and so the market value of an investment in the Additional Tier 1 Securities.

LBG’s obligations under the Additional Tier 1 Securities are subordinated and will be further subordinated upon Automatic Conversion into Settlement Shares.

LBG’s obligations under the Additional Tier 1 Securities will be unsecured and subordinated and will rank junior in priority of payment to the current and future claims of all of its senior and certain of its subordinated creditors. If a Winding-up or Administration Event (as defined under “Description of the Additional Tier 1 Securities—Ranking and Liquidation Distribution”) occurs prior to the date on which a Trigger Event occurs, LBG will pay each Securityholder an amount that would have been payable if, throughout the Winding-up or Administration Event, such Securityholder had been the holder of a class of LBG’s preference shares having an equal right to a return of assets in the Winding-up or Administration Event to, and so ranking pari passu with, the holders of the most senior class or classes of LBG’s issued preference shares in the capital of LBG from time to time (if any) and which have a preferential right to a return of assets in the Winding-up or Administration Event over, and so rank ahead of, the holders of all other classes of issued shares for the time being in the capital of LBG but ranking junior to the claims of Senior Creditors (as defined under “Description of the Additional Tier 1 Securities—Ranking and Liquidation Distribution”). If a Winding-up or Administration Event occurs at any time on or following the date on which a Trigger Event occurs but the Settlement Shares to be issued and delivered to the Settlement Share Depository on the Conversion Date have not been so delivered, LBG shall pay such amount, if any, as would have been payable to a Securityholder in a Winding up or Administration Event if the Conversion Date had occurred immediately before the occurrence of a Winding-up or Administration Event, regardless of whether the Solvency Condition had been satisfied on such date and ignoring for this purpose LBG’s right to make an election for a Settlement Shares Offer to be effected.

Subject to complying with applicable regulatory requirements, LBG expects from time to time to incur additional indebtedness or other obligations that will constitute senior and subordinated indebtedness, and the Additional Tier 1 Securities do not contain any provisions restricting the ability of LBG or its subsidiaries to incur senior or subordinated indebtedness. Although the Additional Tier 1 Securities may pay a higher rate of interest than comparable securities which are not so subordinated, there is a real risk that an investor in the Additional Tier 1 Securities will lose all or some of its investment should LBG become insolvent since its assets would be available to pay such amounts only after all of its senior and more senior subordinated creditors have been paid in full.

Therefore, if a Winding-up or Administration Event were to occur, the LBG liquidator or administrator would first apply assets of LBG to satisfy all rights and claims of Senior Creditors. If LBG does not have sufficient assets to settle claims of such Senior Creditors in full, the claims of the Securityholders will not be settled and, as a result, Securityholders will lose the entire amount of their investment in the Additional Tier 1 Securities. The Additional Tier

1 Securities will share equally in payment with claims under Parity Securities (or, with claims in respect of Ordinary Shares, in the event of a Winding-up or Administration Event occurring in the intervening period between a Trigger Event and the Conversion Date) if LBG does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, Securityholders could lose all or part of their investment.

In addition, investors should be aware that, upon the occurrence of the Automatic Conversion of the Additional Tier 1 Securities following a Trigger Event, holders will be, effectively, further subordinated as they will be treated as, and subsequently become, holders of Ordinary Shares, even if existing subordinated indebtedness and preference shares remain outstanding. There is a risk that holders will lose the entire amount of their investment, regardless of whether LBG has sufficient assets available to settle what would have been the claims of Securityholders or of

TABLE OF CONTENTS

securities subordinated to the same or greater extent as the Additional Tier 1 Securities, in winding-up proceedings or otherwise.

The Additional Tier 1 Securities may be subject to write off or conversion on the occurrence of a bail-in or if LBG becomes subject to resolution.

The Basel III Reforms provide that all non-common equity tier 1 instruments such as the Additional Tier 1 Securities and tier 2 capital instruments, which do not contain any contractual terms providing for their writing off or conversion into ordinary shares at the option of the relevant authority upon the occurrence of a bail-in (as defined below), should cease to be eligible to count in full as additional tier 1 or tier 2 capital (as the case may be) from January 1, 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written off upon the occurrence of a bail-in or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

As used above, “bail-in” means the earlier of (a) a decision that a write off, without which the relevant bank would become non-viable, is necessary as determined by the relevant authority; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would have become non-viable, as determined by the relevant authority.

The European Commission has published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the “RRD”). The stated aim of the RRD is to provide supervisory authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers’ exposure to losses. The powers proposed to be granted to supervisory authorities under the RRD include a “write-down and conversion power” and a “bail-in” power, which would give such authorities the power to write down or write off the claims (potentially including the Additional Tier 1 Securities) of certain unsecured creditors of a failing institution and/or to convert certain debt claims (potentially including the Additional Tier 1 Securities) into another security, including ordinary shares of the surviving Group entity, if any. It is currently contemplated that the majority of measures (including the write-down and conversion powers relating to tier 1 capital instruments, such as the Additional Tier 1 Securities, and tier 2 capital instruments) set out in the RRD will be implemented with effect from January 1, 2015, with the bail-in power for other eligible liabilities expected to be introduced by January 1, 2016. The RRD contains safeguards for shareholders and creditors in respect of the application of the “write down and conversion” and “bail-in” powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings. However, changes may be made to the RRD in the course of the legislative process and anticipated implementation dates could change.

There remains significant uncertainty regarding the ultimate nature and scope of these powers and how they would affect the Group and the Additional Tier 1 Securities. Accordingly, it is not yet possible to assess the full impact of the RRD on the Group and on Securityholders, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the Relevant UK Resolution Authority currently contemplated in the RRD would not adversely affect the rights of Securityholders, the price or value of an investment in the Additional Tier 1 Securities and/or LBG’s ability to satisfy its obligations under the Additional Tier 1 Securities.

Article 518 of the CRR states that if the RRD is not adopted by December 31, 2015, the European Commission should review and report whether the CRR should be amended so as to include write-down and conversion powers to ensure that relevant capital instruments fully absorb losses at the point of non-viability of the issuing institution and before any other resolution action is taken. There is a risk that such an amendment would result in the Additional Tier 1

Securities being used to absorb losses on the occurrence of a bail-in.

The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Additional Tier 1 Securities and could lead to Securityholders losing some or all of their investment in the Additional Tier 1 Securities.

Moreover, the Additional Tier 1 Securities contain a provision in which holders agree to be bound by the exercise of any UK Bail-in Power (as defined under “Description of the Additional Tier 1 Securities—Agreement with Respect to the Exercise of the UK Bail-in Power”). See also “—Under the terms of the Additional Tier 1

TABLE OF CONTENTS

Securities, you have agreed to be bound by the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority". In addition to the RRD described above, it is possible that the exercise of the current powers under the Banking Act 2009 (the "Banking Act"), which provide for a resolution regime to resolve failing banks in the United Kingdom and give the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers, could have a material adverse effect on the rights of Securityholders, including through a material adverse effect on the price of the Additional Tier 1 Securities.

The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for the UK Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

In addition, on December 18, 2013, the Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act"), received Royal Assent. The Banking Reform Act includes amendments to the Banking Act to insert a bail-in option among the powers of the Relevant UK Resolution Authority.

The UK Bail-in Power is introduced as an additional power available to the Relevant UK Resolution Authority, to enable it to recapitalize a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that ought to respect the hierarchy of claims in an insolvency of a relevant financial institution, consistent with shareholders and creditors of financial institutions not receiving less favorable treatment than they would have done in insolvency. The UK Bail-in Power includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the bank under resolution and the power to convert a liability from one form to another. The conditions for use of the UK Bail-in Power are, in summary, that (i) the regulator determines that the bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid the bank's failure and (iii) the Relevant UK Resolution Authority determines that it is in the public interest to exercise the UK Bail-in Power.

In announcing the introduction of the UK Bail-in Power, the UK Government expressed that it was confident that such powers could be introduced without the risk of having to adapt to a radically different regime when the RRD is implemented. It is expected that the UK Treasury will stipulate the date on which the majority of the provisions of the Banking Reform Act will enter into force. Therefore, it is not yet possible to assess the full impact of the RRD or the Banking Reform Act on the Group and on Securityholders.

In addition, the Banking Act may be further amended and/or other legislation may be introduced in the United Kingdom to amend the resolution regime that would apply in the event of a bank failure or to provide regulators with other resolution powers.

Finally, the determination that all or part of the principal amount of the Additional Tier 1 Securities will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of LBG's control. This determination will also be made by the Relevant Regulator and there may be many factors, including factors not directly related to LBG, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a UK Bail-in Power may occur which would result in a principal write off or conversion to other securities, including equity. Accordingly, trading behavior in respect of the Additional Tier 1 Securities is not necessarily expected to follow the trading behavior associated with other types of securities. Potential investors in the Additional Tier 1 Securities should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued and unpaid interest, if such statutory

loss absorption measures are acted upon or that the Additional Tier 1 Securities may be converted into Settlement Shares. This potential risk is in addition to the same risk that will arise if a Trigger Event should occur.

Under the terms of the Additional Tier 1 Securities, you have agreed to be bound by the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority.

By purchasing the Additional Tier 1 Securities, each Securityholder acknowledges, agrees to be bound by and consents to the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority that may result in the cancellation of all, or a portion, of the principal amount of, or interest on, the Additional Tier 1 Securities and/or the conversion of all or a portion of the principal amount of, or interest on, the Additional Tier 1 Securities into

TABLE OF CONTENTS

Ordinary Shares or other securities or other obligations of LBG or another person, including by means of a variation to the terms of the Additional Tier 1 Securities to give effect to the exercise by the Relevant UK Resolution Authority of such bail-in power. Each Securityholder further acknowledges and agrees that the rights of the Securityholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority.

Accordingly, any UK Bail-in Power may be exercised in such a manner as to result in you and other holders losing the value of all or a part of your investment in the Additional Tier 1 Securities or receiving a different security from the Additional Tier 1 Securities, which may be worth significantly less than the Additional Tier 1 Securities and which have significantly fewer protections than those typically afforded to debt securities. Moreover, the Relevant UK Resolution Authority may exercise its authority to implement the UK Bail-in Power without providing any advanced notice to the Securityholders. For more information, see “Description of the Additional Tier 1 Securities—Agreement with Respect to the Exercise of the UK Bail-in Power”.

The circumstances under which the Relevant UK Resolution Authority would exercise its proposed UK Bail-in Power are uncertain.

The stated aim of the RRD is to provide supervisory authorities, including the Relevant UK Resolution Authority, with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers’ exposure to losses. However, as the RRD is still in draft form and will be subject to implementing measures in the United Kingdom, there is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimizing taxpayers’ exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the Relevant UK Resolution Authority would consider in deciding whether to exercise the UK Bail-in Power with respect to the relevant financial institution and/or securities, such as the Additional Tier 1 Securities, issued by that institution.

Moreover, as the final criteria that the Relevant UK Resolution Authority would consider in exercising any UK Bail-in Power may provide it with discretion, Securityholders may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such UK Bail-in Power and consequently its potential effect on the Group and the Additional Tier 1 Securities.

There is therefore considerable uncertainty regarding the rights that Securityholders may have to challenge the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority, and, when the final RRD rules are implemented in the United Kingdom, your rights may be limited.

The rights of Securityholders to challenge the exercise of any UK Bail-in Power by the Relevant UK Resolution Authority are likely to be limited.

Securityholders may have limited rights or no rights to challenge any decision of the Relevant UK Resolution Authority to exercise its UK Bail-in Power or to have that decision reviewed by a judicial or administrative process or otherwise.

Holders may receive Alternative Consideration instead of Settlement Shares or ADSs upon a Trigger Event and would not know the composition of any Alternative Consideration until the end of the Settlement Shares Offer Period.

Securityholders may not ultimately receive Settlement Shares or ADSs upon a Trigger Event because LBG may elect, in its sole and absolute discretion, that a Settlement Shares Offer be conducted by the Settlement Share Depository.

If all of the Settlement Shares are sold in the Settlement Shares Offer, Securityholders shall be entitled to receive, in respect of each Additional Tier 1 Security and as determined by LBG, the pro rata share of the cash proceeds from the sale of the Settlement Shares attributable to such Additional Tier 1 Security translated from sterling into U.S. dollars at a then-prevailing exchange rate as determined by the Settlement Share Depository (less the pro rata share of any foreign exchange transaction costs and an amount equal to the pro rata share of certain taxes that may arise as a result of the Settlement Shares Offer). If some but not all of the Settlement Shares are sold in the Settlement Shares Offer, Securityholders shall be entitled to receive, in respect of each Additional Tier 1

TABLE OF CONTENTS

Security, (a) the pro rata share of the cash proceeds from the sale of the Settlement Shares attributable to such Additional Tier 1 Security translated from sterling into U.S. dollars at a then-prevailing exchange rate as determined by the Settlement Share Depository (less the pro rata share of any foreign exchange transaction costs and an amount equal to the pro rata share of certain taxes that may arise as a result of the Settlement Shares Offer) together with (b) the pro rata share of the Settlement Shares not sold pursuant to the Settlement Shares Offer attributable to such Additional Tier 1 Security rounded down to the nearest whole number of Settlement Shares.

No interest or other compensation is payable in respect of the period from the Conversion Date to the date of delivery of the cash proceeds from the sale of the Settlement Shares or the Settlement Shares in the circumstances described above.

Notice of the results of any Settlement Shares Offer will be provided to Securityholders only at the end of the Settlement Shares Offer Period. Accordingly, Securityholders would not know the composition of the Alternative Consideration to which they may be entitled until the end of the Settlement Shares Offer Period.

As the Conversion Price is fixed at the time of issue of the Additional Tier 1 Securities, Holders will bear the risk of fluctuation in the value of Ordinary Shares and/or the U.S. dollar and sterling exchange rate

Upon the occurrence of a Trigger Event, the Additional Tier 1 Securities will be automatically converted into Settlement Shares on the Conversion Date. Because a Trigger Event will occur when LBG's CET1 Ratio will have deteriorated, the Trigger Event will likely be accompanied by a prior deterioration in the market price of LBG's Ordinary Shares, which may be expected to continue after the occurrence of the Trigger Event. Therefore, if a Trigger Event were to occur, investors would receive Settlement Shares or ADSs at a time when the market price of LBG's Ordinary Shares is diminished. In addition, there may be a delay in a holder receiving its Settlement Shares or ADSs following a Trigger Event, during which time the market price of LBG's Ordinary Shares may further decline. See "Description of the Additional Tier 1 Securities—Conversion—Conversion Procedures". As a result, the realizable value of the Settlement Shares may be below the Conversion Price. The Conversion Price was fixed on March 5, 2014 at \$1.072 per Ordinary Share, and is subject to limited anti-dilution adjustments, as described under "Description of the Additional Tier 1 Securities—Conversion—Anti-dilution Adjustment of the Conversion Price". Although the market value of the Settlement Shares you receive could over time increase, at the time the Settlement Shares are issued, the Conversion Price may not reflect the market price of LBG's Ordinary Shares, which could be significantly lower than the Conversion Price.

In addition, as LBG's Ordinary Shares are denominated and trade in sterling, the market price of the Additional Tier 1 Securities may also be affected by fluctuations in the U.S. dollar and sterling exchange rate due to the Additional Tier 1 Securities being denominated in U.S. dollars. Upon Automatic Conversion, the Additional Tier 1 Securities will convert into Settlement Shares at the Conversion Price. Fluctuations in the U.S. dollar and sterling exchange rate could therefore affect the realizable value of the Settlement Shares and the cash component of any Alternative Consideration.

Furthermore, there may be a delay in a holder receiving its Settlement Shares following a Trigger Event (in particular if LBG elects that the Settlement Share Depository make a Settlement Shares Offer, as the Settlement Shares Offer Period may last up to forty (40) Business Days after the delivery of the Settlement Shares Offer Notice), during which time the market price of the Ordinary Shares or the exchange rate of sterling against the U.S. dollar may further decline.

Securityholders have limited anti-dilution protection.

The number of Settlement Shares to be issued to the Settlement Share Depository on the Conversion Date will be determined by dividing the aggregate principal amount of the Additional Tier 1 Securities outstanding immediately prior to the Automatic Conversion on the Conversion Date by the Conversion Price prevailing on the Conversion Date. Fractions of Settlement Shares will not be delivered to the Settlement Share Depository following the Automatic Conversion and no cash payment shall be made in lieu thereof.

The Conversion Price will be adjusted in the event that there is a consolidation, reclassification, redesignation or subdivision of the Ordinary Shares, an issuance of Ordinary Shares in certain circumstances by way of capitalization of profits or reserves, an Extraordinary Dividend or an issue of Ordinary Shares to shareholders as a class by way of rights, but only in the situations and to the extent provided in “Description of the Additional Tier 1 Securities—

TABLE OF CONTENTS

Conversion—Anti-dilution Adjustment of the Conversion Price”. These may include any modifications as an Independent Financial Adviser (as defined under “Description of the Additional Tier 1 Securities”) shall determine to be appropriate, including for certain situations falling between the Conversion Date and the Settlement Date. Any New Conversion Price following a Qualifying Relevant Event (as defined under “Description of the Additional Tier 1 Securities—Conversion—Conversion upon the Occurrence of a Relevant Event”) will be similarly adjusted, subject to any modifications by the Independent Financial Adviser. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares or that, if a Securityholder were to have held the Ordinary Shares at the time of such adjustment, such holder would not have benefited to a great extent. In particular, there will be no adjustment to the Conversion Price if a Non-Qualifying Relevant Event such as an acquisition of LBG by an entity that is not an Approved Entity or the New Conversion Condition is not satisfied. Furthermore, the adjustment events that are included are less extensive than those often included in the terms of other convertible securities. Accordingly, events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Additional Tier 1 Securities.

If a Relevant Event occurs, the Additional Tier 1 Securities may be convertible into shares in an entity other than LBG or may be fully written down.

If a Qualifying Relevant Event occurs, then following the Automatic Conversion, the Additional Tier 1 Securities shall become convertible into the share capital of the Acquirer as more fully described under “Description of the Additional Tier 1 Securities—Conversion—Conversion upon the Occurrence of a Relevant Event” at the New Conversion Price. There can be no assurance as to the nature of any such Acquirer, or of the risks associated with becoming an actual or potential shareholder in such Acquirer and accordingly a Qualifying Relevant Event may have an adverse effect on the value of the Additional Tier 1 Securities.

In addition, LBG and the Acquirer have certain discretion in determining whether a Qualifying Relevant Event has occurred. A Qualifying Relevant Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, LBG and the Acquirer must, not later than seven calendar days following the occurrence of a Relevant Event, enter into arrangements to the satisfaction of LBG for delivery of the Relevant Shares following the Automatic Conversion. If LBG and the Acquirer are unable to enter into such arrangements within this timeframe, the New Conversion Condition would not be satisfied.

In the case of a Non-Qualifying Relevant Event, the Additional Tier 1 Securities will not be subject to Automatic Conversion unless the Conversion Date occurs prior to the occurrence of the Non-Qualifying Relevant Event. If a Conversion Date occurs following the Non-Qualifying Relevant Event, the outstanding principal amount of each Additional Tier 1 Security will be automatically written down to zero and the Additional Tier 1 Securities will be canceled in their entirety. Securityholders will be deemed to have irrevocably waived their right to receive repayment of the aggregate principal amount of the Additional Tier 1 Securities so written down and all accrued and unpaid interest and any other amounts payable on the Additional Tier 1 Securities will be canceled, as more fully described under “Description of the Additional Tier 1 Securities—Conversion—Conversion upon the Occurrence of a Relevant Event”. There can be no assurance that a Relevant Event will not be a Non-Qualifying Relevant Event, in which case investors may lose their investment in the Additional Tier 1 Securities.

Subject to certain conditions, including the Solvency Condition and regulatory approvals, LBG may redeem the Additional Tier 1 Securities at LBG’s option on certain dates.

Subject to the Solvency Condition as described under “Description of the Additional Tier 1 Securities—Payments—Solvency Condition” being satisfied both immediately prior to and immediately following a

redemption, notice being given to the Relevant Regulator and the Relevant Regulator granting permission (to the extent and in the manner required by the Applicable Regulations), the non-occurrence of a Trigger Event and compliance by LBG with any alternative or additional pre-conditions to redemption set out in the relevant Applicable Regulations from time to time, LBG may opt to redeem all, but not some only, of the Additional Tier 1 Securities at their principal amount together with accrued but unpaid interest, excluding any interest which has been canceled or deemed to be canceled (i) at LBG's option on the First Call Date or on any Reset Date thereafter (each as defined under "Description of the Additional Tier 1 Securities—Payments—Interest Rate"), (ii) in the event LBG is obliged to pay Additional Amounts (as defined under "Description of the Additional Tier 1 Securities—Additional Amounts") in respect of United Kingdom withholding tax, (iii) upon the occurrence of certain other changes in the treatment of the Additional Tier 1 Securities for tax purposes as described in "Description of the Additional Tier 1 Securities—Redemption and Purchase—Tax Redemption", provided that in (ii) and (iii) above, LBG could not avoid the

TABLE OF CONTENTS

foregoing by taking measures reasonably available to it, and (iv) if the Additional Tier 1 Securities fully cease to qualify as additional tier 1 capital of the Group for regulatory and/or capital adequacy purposes as described in “Description of the Additional Tier 1 Securities—Redemption and Purchase—Regulatory Event Redemption”.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which LBG may elect to redeem the Additional Tier 1 Securities, and if so whether or not LBG will satisfy the conditions, or elect, to redeem the Additional Tier 1 Securities. LBG may also be expected to exercise its option to redeem the Additional Tier 1 Securities on or after the First Call Date if LBG’s funding costs would be lower than the prevailing interest rate payable in respect of the Additional Tier 1 Securities. If the Additional Tier 1 Securities are so redeemed, there can be no assurance that Securityholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Additional Tier 1 Securities. Furthermore, the redemption feature of the Additional Tier 1 Securities may limit their market value, which is unlikely to rise substantially above the price at which the Additional Tier 1 Securities can be redeemed.

The Additional Tier 1 Securities do not contain events of default and the remedies available to Securityholders are limited.

The terms of the Additional Tier 1 Securities do not provide for any events of default. Securityholders may not at any time demand repayment or redemption of their Additional Tier 1 Securities, although in a Winding-up or Administration Event prior to a Trigger Event, the Securityholders will have a claim for an amount equal to the principal amount of the Additional Tier 1 Securities plus any accrued interest that has not otherwise been cancelled. There is no right of acceleration in the case of non-payment of principal or interest on the Additional Tier 1 Securities or of LBG’s failure to perform any of its obligations under or in respect of the Additional Tier 1 Securities.

The sole remedy in the event of any non-payment of principal under the Additional Tier 1 Securities subject to certain conditions as described under “Description of the Additional Tier 1 Securities—Enforcement Events and Remedies” is that the Trustee, on behalf of the Securityholders may, at its discretion, or shall at the direction of the holders of 25% of the aggregate principal amount of the outstanding Additional Tier 1 Securities, subject to applicable laws, institute proceedings for the winding-up of LBG. In the event of a Winding-up or Administration Event, whether or not instituted by the Trustee, the Trustee may evidence any obligations of LBG arising under the Additional Tier 1 Securities in any such Winding-up or Administration Event.

Prior to the occurrence of any Winding-up or Administration Event, the Additional Tier 1 Securities will remain subject to Automatic Conversion upon a Trigger Event and the exercise of the UK Bail-in Power; neither constitute an Enforcement Event or a Winding-up Event or Administration Event under the Indenture. LBG is entitled to cancel any interest payment as described under “Description of the Additional Tier 1 Securities—Payments—Interest Cancellation” and such cancellation or deemed cancellation (in each case, in whole or in part) will not constitute an Enforcement Event. If Settlement Shares are not issued and delivered to the Settlement Share Depository following a Trigger Event, the only claim holders will have will be a claim for specific performance to have such Settlement Shares issued, or claims to participate in the liquidation proceeds of LBG.

The remedies under the Additional Tier 1 Securities are more limited than those typically available to LBG’s unsubordinated creditors. For further detail regarding the limited remedies of the Trustee and the Securityholders, see “Description of the Additional Tier 1 Securities—Enforcement Events and Remedies”.

There is no limit on the amount or type of further securities or indebtedness that LBG may issue, incur or guarantee.

There is no restriction on the amount of securities or other liabilities that LBG may issue, incur or guarantee and which rank senior to, or pari passu with, the Additional Tier 1 Securities. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders during a Winding-up or Administration Event and may limit LBG's ability to meet its obligations under the Additional Tier 1 Securities. In addition, the Additional Tier 1 Securities do not contain any restriction on LBG's ability to issue securities that may have preferential rights similar to those of the Additional Tier 1 Securities having similar, different or no Trigger Event provisions.

TABLE OF CONTENTS

The Additional Tier 1 Securities are LBG's exclusive obligations and LBG is structurally subordinated to the creditors of its subsidiaries.

The Additional Tier 1 Securities are LBG's exclusive obligations. LBG is a holding company and conducts substantially all of its operations through its subsidiaries. LBG's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide LBG with funds to meet any of LBG's payment obligations under the Additional Tier 1 Securities. LBG's rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of such subsidiary's creditors and any preference shareholders, except in the limited circumstance where LBG is a creditor with claims that are recognized to be ranked ahead of or pari passu with such claims. Accordingly, if one of LBG's subsidiaries were to be wound up, liquidated or dissolved, (i) the Securityholders would have no right to proceed against the assets of such subsidiary, and (ii) the liquidator of such subsidiary would first apply the assets of such subsidiary to settle the claims of the creditors of such subsidiary, including holders (which may include LBG) of any preference shares and other tier 1 capital instruments of such other subsidiary, before LBG, to the extent LBG is an ordinary shareholder of such other subsidiary and would be entitled to receive any distributions from such other subsidiary.

In the event of a Newco Scheme, LBG may without the consent of Securityholders, at its option, procure that Newco is substituted under any one or more series of Additional Tier 1 Securities as the issuer of such series. If such a substitution occurs the claims of Securityholders will be structurally subordinated to the creditors of the subsidiaries of Newco, including the remaining creditors of LBG.

Following the Automatic Conversion, the Additional Tier 1 Securities will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Settlement Shares, ADSs or Alternative Consideration, as applicable, from the Settlement Share Depository and the rights of the Securityholders will be limited accordingly.

Following the Automatic Conversion, the Additional Tier 1 Securities will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing the holder's right to receive Settlement Shares, ADSs or Alternative Consideration, as applicable. All obligations of LBG under the Additional Tier 1 Securities shall be irrevocably and automatically released in consideration of LBG's issuance and delivery of the Settlement Shares to the Settlement Share Depository on the Conversion Date, and under no circumstances shall such released obligations be reinstated. The Additional Tier 1 Securities shall be canceled on the applicable Cancellation Date.

Although LBG currently expects that beneficial interests in the Additional Tier 1 Securities will be transferrable between the Conversion Date and the Suspension Date, there is no guarantee that an active trading market will exist for the Additional Tier 1 Securities following the Automatic Conversion. Accordingly, the price received for the sale of any beneficial interest under an Additional Tier 1 Security during this period may not reflect the market price of such Additional Tier 1 Security or the Settlement Shares. Furthermore, transfers of beneficial interests in the Additional Tier 1 Securities may be restricted following the Conversion Date, for example if the clearance and settlement of transactions in the Additional Tier 1 Securities is suspended by DTC at an earlier time than currently expected. In such a situation it may not be possible to transfer beneficial interests in the Additional Tier 1 Securities and trading in the Additional Tier 1 Securities may cease.

In addition, LBG has been advised by DTC that it will suspend all clearance and settlement of transactions in the Additional Tier 1 Securities on the Suspension Date. As a result, Securityholders will not be able to settle the transfer of any Additional Tier 1 Securities following the Suspension Date, and any sale or other transfer of the Additional Tier 1 Securities that a Securityholder may have initiated prior to the Suspension Date that is scheduled to settle after

the Suspension Date will be rejected by DTC and will not be settled through DTC.

The Additional Tier 1 Securities may cease to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange or any other stock exchange on which the Additional Tier 1 Securities are then listed or admitted to trading after the Suspension Date.

Moreover, although the holders will become beneficial owners of the Settlement Shares upon the issuance of such Settlement Shares to the Settlement Share Depository and the Settlement Shares will be registered in the name of the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Additional Tier 1 Securities), no holder will be able to sell or otherwise transfer any Settlement Shares or ADSs until such time as they are finally delivered to such holder and registered in their name.

TABLE OF CONTENTS

Holders will have to submit a Settlement Notice in order to receive delivery of the Settlement Shares, ADSs or Alternative Consideration.

In order to obtain delivery of the Settlement Shares, ADSs or Alternative Consideration, as applicable, following the Automatic Conversion, a holder must deliver a Settlement Notice (and the relevant Additional Tier 1 Securities, if applicable) to the Settlement Share Depository. The Settlement Notice must contain certain information, including the holder's CREST account details or ADS depository account information, as applicable. Accordingly, holders of Additional Tier 1 Securities (or their nominee, custodian or other representative) will have to have an account with CREST in order to receive the Settlement Shares or the Settlement Share component, if any, of any Alternative Consideration, as applicable, and/or must be a direct or indirect registered ADS holder in order to receive ADSs. If a Securityholder fails to properly complete and deliver a Settlement Notice on or before the Notice Cut-off Date, the Settlement Share Depository shall continue to hold the relevant Settlement Shares or the Alternative Consideration, as the case may be, until a Settlement Notice (and the relevant Additional Tier 1 Securities, if applicable) is or are so validly delivered. However, the relevant Additional Tier 1 Securities shall be canceled on the Final Cancellation Date and any holder of Additional Tier 1 Securities delivering a Settlement Notice after the Notice Cut-off Date will have to provide evidence of its entitlement to the relevant Settlement Shares, ADSs or Alternative Consideration, as applicable, satisfactory to the Settlement Share Depository in its sole and absolute discretion in order to receive delivery of such Settlement Shares, ADSs or Alternative Consideration. LBG shall have no liability to any Securityholder for any loss resulting from such Securityholder not receiving any Settlement Shares, ADSs or Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of such Securityholder failing to submit a valid Settlement Notice on a timely basis or at all.

Prior to the Conversion Date, holders will not be entitled to any rights with respect to the Ordinary Shares or ADSs, but will be subject to all changes made with respect to the Ordinary Shares or ADSs.

The exercise of voting rights and rights related thereto with respect to any Ordinary Shares or ADSs is only possible after delivery of the Settlement Shares following the Conversion Date and the registration of the person entitled to the Settlement Shares in LBG's share register as a shareholder with voting rights in accordance with the provisions of, and subject to the limitations provided in, the articles of association of LBG. For further information, see "Description of the Additional Tier 1 Securities—Conversion—Conversion Procedures".

As a result of holders receiving Settlement Shares or ADSs upon a Trigger Event, they are particularly exposed to changes in the market price of the Ordinary Shares or ADSs.

Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or through similar transactions. Prospective investors in the Additional Tier 1 Securities may look to sell Ordinary Shares or ADSs (as the case may be) in anticipation of taking a position in, or during the term of, the Additional Tier 1 Securities. This could drive down the price of the Ordinary Shares and/or ADSs. Since the Additional Tier 1 Securities will mandatorily convert into a variable number of Settlement Shares upon a Trigger Event, the price of the Ordinary Shares and/or ADSs may be more volatile if LBG is trending toward a Trigger Event.

Receipt by the Settlement Share Depository of the Settlement Shares shall be good and complete discharge of LBG's obligations in respect of the Additional Tier 1 Securities.

Following a Trigger Event, the relevant Settlement Shares will be issued and delivered by LBG to the Settlement Share Depository, which subject to a Settlement Shares Offer, will hold the Settlement Shares on behalf of the

Securityholders. Receipt by the Settlement Share Depository of the Settlement Shares shall result in the complete and irrevocable discharge of LBG's obligations in respect of the Additional Tier 1 Securities and a Securityholder shall, with effect on and from the Conversion Date, only have recourse to the Settlement Share Depository for the delivery to it of the relevant Settlement Shares, the deposit of the relevant ADSs or, if LBG elects that a Settlement Shares Offer be made as described under "Description of the Additional Tier 1 Securities—Conversion—Conversion Procedures—Settlement Shares Offer") below, of any Alternative Consideration to which such Securityholder is entitled as described herein. LBG shall not have any liability for the performance of the obligations of the Settlement Share Depository.

TABLE OF CONTENTS

In addition, LBG has not yet appointed a Settlement Share Depository and LBG may not be able to appoint a Settlement Share Depository if the Automatic Conversion occurs. In such a scenario, LBG would inform Securityholders via DTC or the Trustee or otherwise, as practicable, of any alternative arrangements in connection with the issuance and/or delivery of the Settlement Shares, ADSs or Alternative Consideration, as applicable, and such arrangements may be disadvantageous to, and more restrictive on, the Securityholders. For example, such arrangements may involve Securityholders having to wait longer to receive their Settlement Shares, ADSs or Alternative Consideration than would be the case under the arrangements expected to be entered into with a Settlement Share Depository. Under these circumstances, LBG's issuance of the Settlement Shares to the relevant recipient in accordance with these alternative arrangements shall constitute a complete and irrevocable release of all of LBG's obligations in respect of the Additional Tier 1 Securities.

The Indenture contains provisions which may permit modification of the Additional Tier 1 Securities without the consent of all investors.

The Indenture contain provisions permitting modifications and amendments to the Additional Tier 1 Securities without the consent of Securityholders in certain instances, and with the consent of not less than two-thirds in aggregate outstanding principal amount of the Additional Tier 1 Securities in other circumstances. Decisions by such Securityholders will bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority. For further information, see "Description of the Additional Tier 1 Securities—Modification and Amendments".

The Additional Tier 1 Securities are novel and complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Additional Tier 1 Securities are novel and complex financial instruments that involve a high degree of risk. As a result, an investment in the Additional Tier 1 Securities and the Settlement Shares issuable following a Trigger Event will involve certain increased risks. Each potential investor of the Additional Tier 1 Securities must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Additional Tier 1 Securities, the merits and risks of investing in the Additional Tier 1 Securities and the information contained or incorporated by reference in this prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Additional Tier 1 Securities and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Additional Tier 1 Securities, including where the currency for principal or interest payments, i.e., U.S. dollars, is different from the currency in which such potential investor's financial activities are principally denominated and the possibility that the entire principal amount of the Additional Tier 1 Securities could be lost, including following the exercise by the Relevant UK Resolution Authority of any UK Bail-in Power;
- (iv) understand thoroughly the terms of the Additional Tier 1 Securities, such as the provisions governing the Automatic Conversion (including, in particular, calculation of the CET1 Ratio, as well as under what circumstances a Trigger Event will occur), and be familiar with the behavior of any relevant indices and financial markets, including

the possibility that the Additional Tier 1 Securities may become subject to write down or conversion if LBG should become non-viable; and

(v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Additional Tier 1 Securities unless they have the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Additional Tier 1 Securities will perform under changing conditions, the resulting effects on the

TABLE OF CONTENTS

likelihood of the Automatic Conversion into Settlement Shares and the value of the Additional Tier 1 Securities, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this offering memorandum or incorporated by reference herein.

The market value of the Additional Tier 1 Securities may be influenced by unpredictable factors.

Many factors, most of which are beyond LBG's control, will influence the value of the Additional Tier 1 Securities and the price, if any, at which securities dealers may be willing to purchase or sell the Additional Tier 1 Securities in the secondary market, including:

- the trading price of LBG's Ordinary Shares and/or ADSs;
- the creditworthiness of LBG and, in particular, the level of LBG's CET1 Ratio from time to time;
- supply and demand for the Additional Tier 1 Securities; and
- economic, financial, political or regulatory events or judicial decisions that affect LBG or the financial markets generally.

Accordingly, if a holder sells its Additional Tier 1 Securities in the secondary market, it may not be able to obtain a price equal to the principal amount of the Additional Tier 1 Securities or a price equal to the price that it paid for the Additional Tier 1 Securities.

Changes in law may adversely affect the rights of Securityholders or may adversely affect the Group's business, financial performance and capital plans.

Any changes in law or regulations after the date hereof that trigger a Regulatory Event or a Tax Event would entitle LBG, at its option, to redeem the Additional Tier 1 Securities, in whole but not in part, as more particularly described under "Description of the Additional Tier 1 Securities—Redemption and Purchase—Regulatory Event Redemption" and "Description of the Additional Tier 1 Securities—Redemption and Purchase—Tax Redemption", respectively. See also "—Subject to certain conditions, including the Solvency Condition and regulatory approvals, LBG may redeem the Additional Tier 1 Securities at LBG's option on certain dates".

In addition, a number of regulators are currently proposing or considering legislation and rule making which may affect the Group's business, the rights of Securityholders and the market value of the Additional Tier 1 Securities. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Additional Tier 1 Securities, or changes that could have a significant impact on the future legal entity structure, business mix (including potential exit of certain business activities) and management of the Group, and use of capital and requirements for loss-absorbing capacity within the Group, which may have an adverse effect on an investment in the Additional Tier 1 Securities.

These and other regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore LBG's, performance and financial condition, which could in turn affect the levels of CET1 Capital and Risk Weighted Assets and, therefore, the resulting fully loaded CET1 Ratio. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Additional Tier 1 Securities and, therefore, affect the trading price of the Additional Tier 1 Securities given the extent and impact on the

Additional Tier 1 Securities that one or more regulatory or legislative changes, including those described above, could have on the Additional Tier 1 Securities. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group or the Securityholders which could be material.

There is no established trading market for the Additional Tier 1 Securities and one may not develop.

The Additional Tier 1 Securities will have no established trading market when issued, and although LBG expects to apply to list the Additional Tier 1 Securities on the Global Exchange Market of the Irish Stock Exchange, one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell

TABLE OF CONTENTS

their Additional Tier 1 Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for securities that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives and strategies, have been structured to meet the investment requirements of limited categories of investors or include features such as the Automatic Conversion and UK Bail-in Power. These types of securities may have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of the Additional Tier 1 Securities.

A downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Additional Tier 1 Securities could cause the liquidity or market value of the Additional Tier 1 Securities to decline.

Upon issuance, the Additional Tier 1 Securities will be rated by nationally recognized statistical ratings organizations and may in the future be rated by additional rating agencies. However, LBG is under no obligation to ensure the Additional Tier 1 Securities are rated by any rating agency and any rating initially assigned to the Additional Tier 1 Securities may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes to LBG's business, so warrant. If LBG determines to no longer maintain one or more ratings, or if any rating agency lowers or withdraws its rating, such event could reduce the liquidity or market value of the Additional Tier 1 Securities.

The Additional Tier 1 Securities are not investment grade and are subject to the risks associated with non-investment grade securities.

The Additional Tier 1 Securities, upon issuance, will not be considered to be investment grade securities, and as such will be subject to a higher risk of price volatility than higher-rated securities. Furthermore, deteriorating outlooks for LBG or the Group, or volatile markets, could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Additional Tier 1 Securities.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Additional Tier 1 Securities. The ratings may not reflect the potential impact of all risks related to structure, market, Automatic Conversion, UK Bail-in Power, additional factors discussed above and other factors that may affect the value of the Additional Tier 1 Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Holders may be obliged to make a take-over bid following a Trigger Event if they take delivery of Settlement Shares.

Upon the occurrence of a Trigger Event, holders receiving Settlement Shares from the Settlement Share Depository may have to make a take-over bid addressed to the shareholders of LBG pursuant to the rules of The City Code on Takeovers and Mergers implementing the Takeovers Directive (2004/25/EC) by means of Part 28 of the United Kingdom Companies Act if their aggregate holdings in LBG exceed 30% of the voting rights in LBG as a result of the Automatic Conversion of the Additional Tier 1 Securities into Settlement Shares.

Securityholders may find it difficult to enforce civil liabilities against LBG or LBG's directors or officers.

LBG is incorporated as a public limited company and is registered in Scotland and LBG's directors and officers reside outside of the United States. In addition, all or a substantial portion of LBG's assets are located outside of the United

States. As a result, it may be difficult for Securityholders to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws.

Holders may be subject to disclosure obligations and/or may need approval by the Relevant Regulator.

As the Additional Tier 1 Securities are mandatorily convertible into Settlement Shares following a Trigger Event, an investment in the Additional Tier 1 Securities may result in Securityholders, following such Automatic Conversion, having to comply with certain disclosure and/or approval requirements pursuant to laws and regulations applicable in the United Kingdom. For example, pursuant to Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook of the FCA Handbook, LBG (and the UK Financial Conduct Authority (the “FCA”)) must be

TABLE OF CONTENTS

notified by a person when the percentage of voting rights in LBG controlled by that person (together with its concert parties), by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or crosses 3% and every percentage point thereafter.

Furthermore, as Settlement Shares are Ordinary Shares of a parent undertaking of a number of regulated Group entities, under the laws of the United Kingdom, the United States and other jurisdictions, ownership of the Additional Tier 1 Securities themselves (or the Settlement Shares) above certain levels may require the holder of the voting Additional Tier 1 Securities to obtain regulatory approval or subject the holder to additional regulation.

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by holders of substantial fines and/or suspension of voting rights associated with the Settlement Shares. Each potential investor should consult its legal advisers as to the terms of the Additional Tier 1 Securities and the level of holding it would have if it receives Settlement Shares following a Trigger Event.

A Securityholder may be subject to taxes following the Automatic Conversion.

Neither LBG, nor any member of the Group will pay any taxes or capital, stamp, issue and registration or transfer taxes or duties arising upon Automatic Conversion or that may arise or be paid as a consequence of the issue and delivery of Settlement Shares to the Settlement Share Depository. A Securityholder must pay any taxes and capital, stamp, issue and registration and transfer taxes or duties arising upon Automatic Conversion in connection with the issue and delivery of the Settlement Shares to the Settlement Share Depository and such Securityholder must pay all, if any, such taxes or duties arising by reference to any disposal or deemed disposal of such Securityholder's Additional Tier 1 Security or interest therein. Any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on delivery or transfer of Settlement Shares to a purchaser in any Settlement Shares Offer shall be payable by the relevant purchaser of those Settlement Shares.

Tax: Deeply Discounted Securities – UK Income Tax Payers

The following paragraphs relate only to Holders of ECNs who are resident for tax purposes in the UK and within the charge to UK income tax.

The “issue price” of certain series of ECNs was less than the amount payable on their redemption. Depending on the amount by which the “issue price” was lower than the amount payable on their redemption, those ECNs may constitute “Deeply Discounted Securities” (“DDS”) within the meaning of Chapter 8 of Part 4 of the Income Tax (Trading And Other Income) Act 2005.

Any profit made by Holders who are within the charge to UK income tax on a disposal of ECNs which are DDS (“DDS ECNs”), whether pursuant to the Exchange Offer or otherwise (including on any redemption), will be taxed as income. Generally, such a Holder's profit on a disposal of DDS ECNs, for these purposes, will be the amount by which the amount payable on disposal exceeds the amount paid by that Holder to acquire those DDS ECNs. Holders of the ECNs must take their own professional tax advice on the consequences of a disposal of the ECNs pursuant to the Exchange Offer. However, by way of general guidance only, we have been advised that, although the position is not entirely free from doubt, Holders who acquired DDS ECNs on issue under the 2009 Exchange Offer should be treated as having acquired those DDS ECNs for an amount equal to their issue price which will be lower than their par value. As a result, a profit, taxable as income, could arise to Holders who are within the charge to UK income tax on disposal of their DDS ECNs even in circumstances where the proceeds of disposal are equal to or lower than the par value of those DDS ECNs, and even where that Holder may have made no overall economic profit taking into account the

amount that Holder may have paid to acquire the securities which were exchanged for ECNs pursuant to the 2009 Exchange Offer. Holders who are within the charge to UK income tax will not be entitled to any relief for any loss made on a disposal of their DDS ECNs.

Holders are directed to “Taxation Considerations—Certain United Kingdom Income Tax Consequences” for further information. Holders should consult their professional tax adviser immediately and prior to taking any action pursuant to the Exchange Offer.

You may be subject to U.S. tax upon adjustments (or failure to make adjustments) to the Conversion Price even though you do not receive a corresponding cash distribution.

The Conversion Price is subject to adjustment in certain circumstances, as described under “Description of Additional Tier 1 Securities —Conversion—Anti-dilution Adjustment of the Conversion Price”. If, as a result of adjustments (or failure to make adjustments), an investor’s proportionate interest in LBG’s assets or earnings were

TABLE OF CONTENTS

deemed to be increased for U.S. federal income tax purposes, you may be treated as having received a taxable distribution for these purposes, without the receipt of any cash or property. See “Taxation Considerations—Material U.S. Federal Income Tax Considerations—Taxation of the Additional Tier 1 Securities—Adjustments to the Conversion Price” for a further discussion of these U.S. federal tax implications.

Potential FATCA withholding after December 31, 2016.

Under certain provisions of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder (commonly referred to as “FATCA”), as well as certain intergovernmental agreements between the United States and certain other countries (including the United Kingdom) together with expected local country implementing legislation, certain payments made in respect of the Additional Tier 1 Securities, Settlement Shares and ADSs after December 31, 2016 may be subject to withholding (“FATCA withholding”).

LBG (or a relevant intermediary) may be required to impose FATCA withholding on payments in respect of the Additional Tier 1 Securities, Settlement Shares and ADSs to the extent that such payments are “foreign passthru payments,” made after December 31, 2016 to non-U.S. financial institutions (including intermediaries) that have not entered into agreements with the IRS pursuant to FATCA or otherwise established an exemption from FATCA, and other holders that fail to provide sufficient identifying information to LBG or any relevant intermediary. Under current guidance it is not clear whether and to what extent payments on the Additional Tier 1 Securities, Settlement Shares and ADSs will be considered foreign passthru payments subject to FATCA withholding or how intergovernmental agreements will address foreign passthru payments (including whether withholding on foreign passthru payments will be required under such agreements). Securityholders should consult their tax advisers as to how these rules may apply to payments they receive under the Additional Tier 1 Securities, Settlement Shares and ADSs.

A Securityholder may be subject to the EU Savings Tax Directive.

Under the EU Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in that Member State or certain limited types of entities in that other Member State. However, for a transitional period, Luxembourg and Austria are required to operate a withholding system in relation to such payments (unless during that period they elect otherwise) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other markets and territories). Certain other jurisdictions, including Switzerland, have enacted equivalent legislation (a withholding tax in substantially the same circumstances as envisaged by the Savings Directive in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from January 1, 2015 in favor of automatic information exchange under the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. Securityholders should note that if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither LBG nor any paying agent would be obliged to pay any additional amounts with respect to the Additional Tier 1 Securities.

Investors should be aware that the materialization of any of the above risks (including those risks incorporated herein by reference) may adversely affect the value of the Additional Tier 1 Securities.

TABLE OF CONTENTS

USE OF PROCEEDS AND RATIONALE OF THE EXCHANGE OFFER

In 2009, the Group undertook a significant capital raising exercise in order to reinforce the Group's going-concern capital ratios, and to meet the FSA's stress test requirements. As a component of the exercise, the Group issued 33 series of enhanced capital notes with a nominal amount of £8.4 billion currently outstanding.

The terms and conditions of the ECNs include a Regulatory Call Right (as defined herein) should, amongst other things, the ECNs cease to be taken into account for the purposes of any "stress test" applied by the PRA (successor to the FSA) in respect of core capital. Whilst still uncertain, management of LBG believes recent developments resulting in higher capital requirements for banks, including a changed definition of core capital, make it likely that the ECNs will not provide going concern benefit under future stress tests.

These recent developments include:

- a requirement in the CRR that with effect from January 1, 2014 convertible additional tier 1 capital instruments should have a conversion trigger set at no less than 5.125% CET1 ratio ("CET1 ratio" means, the ratio of a firm's common equity tier 1 capital to its risk weighted assets, and calculated in accordance with the end-point requirements of CRD IV);
- statements by the PRA in late 2013 that a conversion trigger of 5.125% CET1 ratio may not convert in time to prevent the failure of a firm and that it expects major UK firms to meet a 7% CET1 ratio determined in accordance with the end-point requirements of CRD IV;
- a statement by the EBA in January 2014 that tier 2 instruments must have a conversion trigger above a 5.5% CET1 ratio to be recognized in its forthcoming stress tests; and
- an announcement by the PRA that, following a consultation commenced in October 2013, it expects to revise stress testing methodology and pass marks in 2014.

As a result of differences in definition, the Group's CET1 ratio is substantially lower than the core tier 1 ratio on which the conversion trigger of the ECNs is based. As at December 31, 2013, the difference was 4.0%. Applying the same difference to the 5.0% core tier 1 ratio used as the ECN conversion trigger gives a 1.0% CET1 ratio determined in accordance with end point requirements of CRD IV, well below the CRR minimum requirements.

The Group is today launching prioritized exchange offers to holders of enhanced capital notes, including the ECNS, to exchange their enhanced capital notes for new additional tier 1 securities at a price consistent with current trading prices. The offers provide holders with a means to eliminate the uncertainty around the Regulatory Call Right in the enhanced capital notes. In addition, such exchange offers are expected to result in sufficient additional tier 1 securities being issued to meet the Group's medium-term additional tier 1 target.

Neither LBG nor the Offerors will receive any cash proceeds from the issuance of the Additional Tier 1 Securities.

The Additional Tier 1 Securities will be accounted for as equity under IFRS, and any interest payments made in respect of the Additional Tier 1 Securities will be accounted for as a distribution of profits to equity holders.

As the exchange consideration in the Exchange Offer and the Concurrent Non-U.S. Exchange Offers is greater than the book value of the enhanced capital notes (including their embedded equity conversion feature) recognized in the consolidated financial statements accounts of the Group, the Group will recognize a one-off charge to be reported

outside of the Group's underlying results in connection with the Exchange Offer in the first half of 2014. If an aggregate principal amount of £5 billion in additional tier 1 securities is issued in the Exchange Offer and the Concurrent Non-U.S. Exchange Offers, the resulting one-off charge will be approximately £1 billion, equivalent to a reduction of approximately 40 basis points in the Group's fully loaded CET1 Ratio. In addition, in those circumstances the Exchange Offer and the Concurrent Non-U.S. Exchange Offers would together increase the Group's leverage ratio by approximately 50 basis points and would beneficially impact the Group's 2014 net interest margin by approximately 5 basis points. The Group's total capital ratio will not be materially affected.

TABLE OF CONTENTS

RATIO OF EARNINGS TO FIXED CHARGES

The Group's ratio of earnings to fixed charges as at December 31, 2013 and for the years ended December 31, 2012, 2011, 2010 and 2009 is set out in the report on Form 6-K dated March 5, 2014, which is incorporated by reference herein.

TABLE OF CONTENTS

CAPITALIZATION OF THE GROUP

The following table shows the Group's capitalization and indebtedness on a consolidated basis in accordance with IFRS as at December 31, 2013 on an actual basis and on an adjusted basis to give effect to:

- (i) the Exchange Offer, on the assumption that LBG will issue the Maximum New Issue Size of Additional Tier 1 Securities; and
- (ii) the Concurrent Non-U.S. Exchange Offers (as defined under "Important Note Relating to the Concurrent Exchange Offers"), on the assumption that LBG will issue the maximum new issue size in respect of the additional tier 1 securities being offered pursuant to the terms of the Concurrent Non-U.S. Exchange Offers.

The Additional Tier 1 Securities will be exchanged for ECNs as described in this prospectus. Accordingly, the completion of the Exchange Offer and the Concurrent Non-U.S. Exchange Offers will not generate any proceeds to us or to the Offerors.

In accordance with IFRS, certain preference shares are classified as debt and are included in subordinated liabilities in the table below. The table below should be read in conjunction with, and is qualified in its entirety by reference to, our historical financial statements and the accompanying notes in LBG's Annual Report on Form 20-F for the fiscal year ended December 31, 2013, incorporated by reference herein.

	As at December 31, 2013	
	Actual	As Adjusted
	(£m)	
Capitalization		
Equity		
Ordinary share capital and reserves	38,989	38,209
Other equity instruments(1)	—	5,000
Non-controlling interests	347	347
Total equity	39,336	43,556
Indebtedness		
Subordinated liabilities(2)	32,312	27,612
Debt securities		
Debt securities in issue	87,102	87,102
Liabilities held at fair value through profit or loss (debt securities)	5,267	5,267
Total debt securities	92,369	92,369
Total indebtedness	124,681	119,981
Total capitalization and indebtedness	164,017	163,537

(1) Includes the Maximum New Issue Size of Additional Tier 1 Securities in the Exchange Offer and the maximum new issue size of the additional tier 1 securities being offered in the Concurrent Non-U.S. Exchange Offers.

(2) Includes the ECNs (and their embedded equity conversion feature) exchanged in the Exchanged Offer and the enhanced capital notes exchanged in the Concurrent Non-U.S. Exchange Offers.

Excluding indebtedness issued under government-guaranteed funding programs, none of the indebtedness set forth above is guaranteed by persons other than members of the Group. As of December 31, 2013, all indebtedness was unsecured except for £49.3 billion of securitization notes and covered bonds and £3.5 billion of debt securities issued by the Group's asset-backed conduits.

As of December 31, 2013, £124,681 million of indebtedness would have ranked senior to the Additional Tier 1 Securities had a Winding-Up or Administration Event occurred on such date. For further information on ranking and liquidation distribution, see "Description of the Additional Tier 1 Securities—Ranking and Liquidation Distribution".

TABLE OF CONTENTS

Other than the redemption, on maturity, of £250 million of dated subordinated debt on January 17, 2014 and the redemption, at call date, of €261 million of undated subordinated debt on February 25, 2014, there have been no issuances or redemptions of subordinated liabilities since December 31, 2013.

There has been no material change in the information set forth in the table above since December 31, 2013.

TABLE OF CONTENTS

MARKET INFORMATION AND DIVIDEND POLICY

The Ordinary Shares of LBG are listed and traded on the London Stock Exchange under the symbol “LLOY.L”. The prices for shares as quoted in the official list of the London Stock Exchange are in sterling. The following table shows the reported high and low closing prices for the ordinary shares on the London Stock Exchange. This information has been extracted from publicly available documents from various sources, including officially prepared materials from the London Stock Exchange, and has not been prepared or independently verified by LBG.

	Price per Ordinary Share	
	High	Low
	(in pence)	
Annual prices:		
2013	80.37	46.31
2012	49.25	25.30
2011	69.61	21.84
2010	77.61	46.59
2009	140.70	40.30
Quarterly prices:		
2013		
Fourth quarter	80.37	72.52
Third quarter	78.00	62.95
Second quarter	63.16	46.31
First quarter	55.68	47.65
2012		
Fourth quarter	49.25	37.01
Third quarter	40.62	28.76
Second quarter	33.60	25.30
First quarter	37.50	26.19
Monthly prices:		
February 2014	83.53	79.99
January 2014	86.30	79.12
December 2013	78.88	75.39
November 2013	77.72	73.87
October 2013	80.37	72.52
September 2013	78.00	72.63

On February 28, 2014, the closing price of Ordinary Shares on the London Stock Exchange was 82.53 pence, equivalent to \$1.39 per Ordinary Share translated at the Noon Buying Rate of £1.00 = \$1.68.

Since November 27, 2001, LBG’s ADSs have been listed on the New York Stock Exchange under the symbol “LYG”. Each ADS represents four Ordinary Shares.

The following table shows the reported high and low closing prices for LBG’s ADSs on the New York Stock Exchange.

	Price per ADS	
	High	Low

(in U.S. dollars)

Annual prices:

2013	5.36	2.84
2012	3.23	1.53
2011	4.44	1.34
2010	4.85	2.92
2009	8.40	2.22

TABLE OF CONTENTS

	Price per ADS	
	High	Low
	(in U.S. dollars)	
Quarterly prices:		
2013		
Fourth quarter	5.36	4.67
Third quarter	5.00	3.83
Second quarter	3.91	2.84
First quarter	3.58	2.89
2012		
Fourth quarter	3.23	2.34
Third quarter	2.56	1.75
Second quarter	2.12	1.53
First quarter	2.35	1.58
Monthly prices:		
February 2014	5.60	5.21
January 2014	5.76	5.26
December 2013	5.32	4.94
November 2013	5.10	4.74
October 2013	5.36	4.67
September 2013	5.00	4.53

On February 28, 2014, the closing price of LBG's ADSs on the New York Stock Exchange was \$5.59.

Dividend Policy

For information on the LBG's ability to pay dividends, see our Annual Report on Form 20-F for the fiscal year ended December 31, 2013 under the heading "Dividends".

Enhanced Capital Notes

The ECNs are admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange's Regulated Market.

The high and low quoted sales prices for the ECNs for each quarter during the past two years are as follows:

														Trading Price(1)	
1Q12		2Q12		3Q12		4Q12		1Q13		2Q13		3Q13			
Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min		
														(U.S. dollars)	
92.563	76.188	92.063	84.938	101.375	92.375	108.313	100.438	112.500	109.125	110.813	102.563	107.750	103.688		

Series

1

ECNs

Series

2

ECNs 87.494 71.647 86.805 78.500 96.438 85.438 104.563 94.750 111.063 104.250 107.875 100.375 106.438 101.813

Series

3

ECNs 91.780 75.756 93.813 81.688 103.500 94.375 111.875 94.375 113.875 105.625 111.125 101.750 106.938 102.375

Series

4

ECNs 93.000 77.188 92.438 85.938 101.625 92.875 107.625 100.875 112.063 108.625 111.250 102.500 108.313 102.813

(1) Reflects, for the periods indicated, the high and low sales prices per ECN as reported by the Bloomberg Valuation Service (BVAL).

TABLE OF CONTENTS

THE EXCHANGE OFFER

Timetable for the Exchange Offer

Holders should confirm with any bank, securities broker or other intermediary through which they hold ECNs whether such intermediary needs to receive instructions from a holder before the deadlines specified in this prospectus in order for that holder to be able to participate in, or (in the circumstances in which withdrawal is permitted) withdraw their instruction to participate in, the Exchange Offer.

The times and dates below are subject, where applicable, to the right of the Offerors to extend, re-open, amend, limit, terminate or withdraw the Exchange Offer, subject to applicable law. Accordingly, the actual timetable may differ significantly from the expected timetable set out below. If any of the above times and/or dates change, the revised time and/or date will be notified by announcement as soon as reasonably practicable.

Events	Dates and Times
Commencement of the Exchange Offer	
Exchange Offer announced. Prospectus made available to holders of ECNs.	March 6, 2014
Withdrawal Deadline	
The deadline for holders to validly withdraw tenders of ECNs.	11:59 p.m., New York City time, on April 2, 2014
Expiration Deadline	
The deadline for receipt of all Exchange Instructions.	11:59 p.m., New York City time, on April 2, 2014.
Announcement of Exchange Offer Results	
Announcement of (i) the satisfaction or waiver of the Minimum New Issue condition; (ii) the aggregate principal amounts of each series of ECNs which LBG 1 and LBG 2 will be accepting for exchange; (iii) whether tenders of each series of ECNs are to be accepted in full (if at all) or on a pro rata basis and, where accepted on a pro rata basis, the extent to which such tenders will be scaled; (iv) the aggregate principal amount of Additional Tier 1 Securities to be issued in the Exchange Offer; and (v) the Settlement Date.	As soon as reasonably practicable on April 3, 2014
Settlement Date	
Settlement Date of the Exchange Offer, including delivery of the Additional Tier 1 Securities plus the cash payment for any accrued and unpaid interest, (including,	Expected on April 7, 2014

if applicable, cash amounts in lieu of any fractional
Additional Tier 1 Securities) in exchange for ECNs
accepted in the Exchange Offer.

TABLE OF CONTENTS

Unless stated otherwise, announcements in connection with the Exchange Offer will be made (i) by the issue of a press release to a Notifying News Service, (ii) by the delivery of notices to the relevant Clearing System for communication to Direct Participants and (iii) through RNS, and may also be found on the relevant Reuters International Insider Screen. Copies of all such announcements, press releases and notices can also be obtained from the Exchange Agent, the contact details for whom are at the end of this prospectus.

Purpose of the Exchange Offer

See “Use of Proceeds and Rationale of the Exchange Offer” for an explanation of the rationale of the Exchange Offer.

Terms of the Exchange Offer

LBG 1 is offering to exchange, on the terms and conditions described in this prospectus, Additional Tier 1 Securities, plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for the Series 1 ECNs, the Series 2 ECNs and the Series 3 ECNs. LBG 2 is offering to exchange, on the terms and conditions described in this prospectus, Additional Tier 1 Securities, plus accrued and unpaid interest in cash, plus (if applicable) cash amounts in lieu of any fractional Additional Tier 1 Securities, for the Series 4 ECNs.

The maximum aggregate principal amount of Additional Tier 1 Securities that can be issued in the Exchange Offer is equal to the Maximum New Issue Size.

Exchange Offer Period

The Exchange Offer commences on March 6, 2014 and will end at 11:59 p.m., New York City time, on April 2, 2014, as such date may be extended (the “Expiration Deadline”). If the Expiration Deadline is extended by the Offerors, an announcement to that effect will be made by the Offerors as described below in “—Announcements” no later than 9:00 a.m., New York City time, on the next Business Day after the previously scheduled Expiration Deadline.

Acceptance of ECNs; Exchange Priority; Proration

LBG 1 and LBG 2 will accept tenders in accordance with the Exchange Priority set out in the table on the front cover page of this prospectus, until either (i) all of the ECNs validly offered for exchange have been accepted or (ii) the principal amount of Additional Tier 1 Securities to be delivered in exchange for ECNs is the maximum such principal amount that can be delivered without exceeding the Maximum New Issue Size. Where the acceptance in accordance with the Exchange Priority of all valid tenders of a series of ECNs would require a greater principal amount of Additional Tier 1 Securities to be delivered than the Maximum New Issue Size, ECNs validly tendered and not validly withdrawn prior to the Expiration Deadline will be accepted in accordance with the Exchange Priority and, in the case of that particular series, on a pro rata basis up to the Maximum New Issue Size. Tenders of a series of ECNs with a lower Exchange Priority than the lowest ranking series of ECNs with respect to which any tenders are accepted, will not be accepted. The Offerors reserve the right at their absolute discretion, but are under no obligation, to increase or waive the Maximum New Issue Size at any time, subject to compliance with applicable law.

Holders whose ECNs tendered in the Exchange Offered are not accepted, who validly withdraw their tenders prior to the Expiration Deadline or who do not participate in the Exchange Offer, will not be eligible to receive Additional Tier 1 Securities in exchange for such ECNs and shall continue to hold such ECNs subject to their terms and conditions.

A holder whose ECNs are accepted for exchange in the Exchange Offer and who, following the exchange of such ECNs on the Settlement Date, will continue to hold in its account with the relevant Clearing System a principal amount of ECNs which is less than the minimum denomination for such series, will need to purchase a principal amount of ECNs of such series such that its holding amounts to at least the amount of such minimum denomination. Otherwise such residual holding may not be tradeable in the Clearing Systems.

TABLE OF CONTENTS

Cash Instead of Fractional Additional Tier 1 Securities

No fractional Additional Tier 1 Securities will be delivered pursuant to the Exchange Offer. Instead, each tendering holder of ECNs who would otherwise be entitled to a fractional Additional Tier 1 Security will receive cash in an amount equal to such fractional entitlement.

Results

533.4 928.9 790.7 11.3 802.0

Assumptions

Weighted average actuarial assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Discount rate	6.61%	6.12%	6.61%	6.12%
Rate of increase in compensation levels	4.2%	3.77%		

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits			Other Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	6.12%	5.75%	5.75%	6.12%	5.75%	5.75%
Rate of increase in compensation levels	3.74%	3.77%	3.77%			
Expected rate of return on assets	8.75%	8.75%	8.75%			

Table of Contents

The discount rate refers to the interest rate used to discount the estimated future benefit payments to their present value, also referred to as the benefit obligation. The discount rate allows us to estimate what it would cost to settle the pension obligations as of the measurement date, December 31, and is used as the interest rate factor in the following year's pension cost. We determine the discount rate by choosing a portfolio of high quality (those rated AA- or higher by Standard & Poors) non-callable bonds such that the coupons and maturities approximate our expected benefit payments. When developing the bond portfolio, there are some years when benefit payments are expected with no corresponding bond maturing. In these instances, we estimated the appropriate bond by interpolating yield characteristics between the bond maturing in the immediately preceding year and the bond maturing in the next available year. This analysis is performed on a biannual basis.

In determining the expected rate of return on assets, we consider our historical experience in the plans' investment portfolio, historical market data and long-term historical relationships as well as a review of other objective indices including current market factors such as inflation and interest rates. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2007 consisted of 64% in equities, 31% in debt securities and 5% in real estate. Our asset allocation as of December 31, 2006 consisted of 65% of equities, 29% of debt securities, 5% of real estate and 1% in other investments. These allocations are consistent with the targeted long-term asset allocation for the plans. Based on various market factors, we have selected an expected rate of return on assets of 8.5% for 2008. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately. The pension trust holds no YRC Worldwide securities.

Future Contributions and Benefit Payments

We expect to contribute approximately \$58.6 million to our pension plans in 2008.

Expected benefit payments for each of the next five years ended December 31 are as follows:

(in millions)	2008	2009	2010	2011	2012	2013-2017
Expected benefit payments	\$ 49.3	\$ 52.3	\$ 55.6	\$ 60.5	\$ 66.3	\$ 416.0

Pension and Other Postretirement Costs

The components of our net periodic pension cost, other postretirement costs and other amounts recognized in other comprehensive income for the years ended December 31, 2007, 2006 and 2005, were as follows:

(in millions)	Pension Costs			Other Postretirement Costs		
	2007	2006	2005	2007	2006	2005
Net periodic benefit cost:						
Service cost	\$ 39.3	\$ 44.2	\$ 42.8	\$ 0.4	\$ 0.5	\$ 0.6
Interest cost	65.5	63.4	60.4	1.9	1.9	1.9
Expected return on plan assets	(69.7)	(59.0)	(55.8)			
Amortization of prior service cost	1.4	1.5	1.5	0.2	0.2	0.2
Amortization of net loss	7.9	11.4	10.7	(0.2)	(0.1)	(0.2)
Settlement cost	4.3					
Net periodic pension cost	\$ 48.7	\$ 61.5	\$ 59.6	\$ 2.3	\$ 2.5	\$ 2.5
Other changes in plan assets and benefit obligations recognized in other comprehensive income:						
Net gain	\$ (77.5)	\$ (48.5)		\$ (1.2)	\$ (0.2)	
Prior service cost	(1.3)	4.1		(0.2)	0.2	
Total recognized in other comprehensive income	(78.8)	(44.4)		(1.4)		
Total recognized in net periodic benefit cost and other comprehensive income	\$ (30.1)	\$ 17.1		\$ 0.9	\$ 2.5	

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During the year ended December 31, 2007, certain executives separated from the Company resulting in special termination benefit costs of \$1.5 million and settlement costs of \$2.8 million. These amounts are presented above as settlement costs of \$4.3 million and are classified as Reorganization and settlements in the accompanying consolidated statement of operations.

Table of Contents

During the years ended December 31, 2007, 2006 and 2005, the income tax provision related to amounts in other comprehensive income (net gain and prior service cost) was \$29.4 million, \$16.4 million and \$2.2 million, respectively.

Other Postretirement Benefit Plans

Assumed health care cost trend rates at December 31 are as follows:

	2007	2006
Health care cost trend used in the current year	8.0%	9.0%
Health care cost trend rate assumed for next year	7.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The policy of Roadway, the plan sponsor, regarding the management of health care costs passes the increase beyond a fixed threshold to the plan participants. As a result, a one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and the interest cost components.

A one-percentage-point decrease in assumed health care cost trend rates would have the following effects:

(in millions)	2007
Effect on total of service and interest cost	\$ 0.1
Effect on postretirement benefit obligation	1.7

The estimated employer contributions during the year ended December 31, 2008 are approximately \$4.5 million.

Expected benefit payments for each of the next five years ended December 31 are as follows:

(in millions)	2008	2009	2010	2011	2012	2013-2017
Expected benefit payments	\$ 4.5	\$ 4.6	\$ 4.7	\$ 4.8	\$ 4.3	\$ 14.8

Executive Supplemental Retirement Benefits

We maintain individual benefit arrangements for a limited number of current and former senior executives that is accounted for in accordance with APB No. 12, *Deferred Compensation Contracts*. The obligation is unfunded and is actuarially determined using a discount rate of 8.25%, a lump sum rate based on the Moody's bond rate and the RP-2000 mortality table. At December 31, 2007 and 2006, we have accrued \$10.5 million (\$1.9 million as a short-term obligation) and \$8.5 million, respectively, for this plan. The long-term obligation is classified in noncurrent pension and postretirement liabilities in the accompanying balance sheets.

Multi-Employer Plans

Yellow Transportation, Roadway, New Penn, USF Holland and USF Reddaway contribute to approximately 90 separate multi-employer health, welfare and pension plans for employees that our collective bargaining agreements cover (approximately 70% of total YRC Worldwide employees), including 20 pension plans. Our labor agreements with the International Brotherhood of Teamsters (the *Teamsters*) determine the amounts of these contributions. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the contractually required contribution for the period and recognize as a liability any contributions due and unpaid. We do not directly manage multi-employer plans. The trusts covering these plans are generally managed by trustees, half of whom the *Teamsters* appoints and half of whom various contributing employers appoint. We expensed the following amounts to these plans for the years ended December 31:

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(in millions)	2007	2006	2005
Health and welfare	\$ 555.3	\$ 549.5	\$ 500.2
Pension	578.0	542.0	472.7
Total	\$ 1,133.3	\$ 1,091.5	\$ 972.9

Table of Contents

In 2006, the Pension Protection Act became law and modified both the Internal Revenue Code (as amended, the Code) as it applies to multi-employer pension plans and the Employment Retirement Income Security Act of 1974 (as amended, ERISA). The Code and ERISA (in each case, as so modified) and related regulations establish minimum funding requirements for multi-employer pension plans. The funding status of these plans is determined by the following factors:

the number of participating active and retired employees

the number of contributing employers

the amount of each employer's contractual contribution requirements

the investment returns of the plans

plan administrative costs

the number of employees and retirees participating in the plan who no longer have a contributing employer

the discount rate used to determine the funding status

the actuarial attributes of plan participants (such as age, estimated life and number of years until retirement)

the benefits defined by the plan

If any of our multi-employer pension plans fails to:

meet minimum funding requirements

meet a required funding improvement or rehabilitation plan that the Pension Protection Act may require for certain of our underfunded plans

obtain from the IRS certain changes to or a waiver of the requirements in how the applicable plan calculates its funding levels or

reduce pension benefits to a level where the requirements are met

the Pension Protection Act could require us to make additional contributions to the multi-employer pension plan from five to ten percent of the contributions that our collective bargaining agreement requires until the collective bargaining agreement expires. Our new labor agreement, however, provides that if additional contributions are required that money designated for certain other benefits would be reallocated to pay for the additional contributions.

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If we fail to make our required contributions to a multi-employer plan under a funding improvement or rehabilitation plan or if the benchmarks that an applicable funding improvement plan provides are not met by the end of a prescribed period, the IRS could impose an excise tax on us with respect to the plan. These excise taxes are not contributed to the deficient funds, but rather are deposited in the United States general treasury funds.

Depending on the amount involved, a requirement to increase contributions beyond our contractually agreed rate or the imposition of an excise tax on us could have a material adverse impact on the financial results of YRC Worldwide.

401(k) Savings Plans and Profit Sharing Plans

YRC Worldwide and its operating subsidiaries sponsor defined contribution plans, primarily for employees that collective bargaining agreements do not cover. The plans principally consist of contributory 401(k) savings plans and noncontributory plans. The YRC Worldwide contributory 401(k) savings plan consists of both a fixed matching percentage and a discretionary amount. The maximum nondiscretionary company match for the YRC Worldwide plan is equal to 25% of the first 6% in cash and 25% of the first 6% in YRC Worldwide common stock, for a total match of 50% of the first 6% of before-tax participant contributions. Any discretionary contributions for the YRC Worldwide 401(k) savings plan are determined annually by the Board of Directors and may be in the form of cash, stock or other property. USF sponsored (now sponsored by YRC Regional Transportation) a 401(k) plan for its operating companies where eligible employees can contribute up to 50% of their cash compensation and each of the operating companies may also contribute a discretionary amount. New Penn sponsors a 401(k) plan that, effective January 1, 2007, provides for a company match similar to that provided by the YRC Worldwide plan. Employer contributions for the year ended December 31, 2007, 2006 and 2005 were \$22.9 million, \$25.5 million and \$19.4 million, respectively.

For the YRC Worldwide noncontributory profit sharing plan, which was established effective January 1, 2004, the nondiscretionary company contribution is based on years of participation service and compensation, with a maximum fixed contribution of 5% of compensation for more than ten years of participation service. The YRC Worldwide profit sharing plan also provides for a discretionary performance based contribution of a maximum of 2 1/2% of compensation. The Board of Directors determines any discretionary contributions annually. Contributions under the YRC Worldwide profit sharing plan may be made in cash or other property, as the Board of Directors determines, however we will generally make nondiscretionary contributions in cash. New Penn

Table of Contents

provides a noncontributory profit sharing plan for employees not covered by collective bargaining agreements. Any contributions are discretionary employer contributions. Employer contributions to our noncontributory profit sharing plans in 2007, 2006 and 2005 totaled \$3.8 million, \$2.9 million and \$2.3 million, respectively.

Our employees covered under collective bargaining agreements may also participate in union-sponsored 401(k) plans. We do not make employer contributions to the plan on their behalf.

Performance Incentive Awards

YRC Worldwide and its operating subsidiaries each provide annual performance incentive awards to nonunion employees, which are based primarily on actual operating results achieved compared to targeted operating results and are paid in cash. Operating income in 2007, 2006, and 2005 included performance incentive expense for nonunion employees of \$22.7 million, \$39.2 million, and \$95.5 million, respectively. The decrease in 2007 is reflective of our lower operating results. The reduction in the 2006 as compared to 2005 expense, is reflective of our actual results not meeting our internal expectations resulting in a discretionary adjustment to the 2006 award. We pay annual performance incentive awards primarily in the first quarter of the following year.

Other

We provide a performance based long-term incentive plan to key management personnel that annually awards cash and restricted stock units based on a certain defined performance period. In addition, we utilize restricted stock units to further compensate certain levels of management and our Board of Directors. The restricted stock units are more fully described in the Stock Compensation Plans footnote. During the years ended December 31, 2007, 2006 and 2005, compensation expense related to these such awards was \$14.3 million, \$15.9 million and \$19.9 million, respectively.

During the fourth quarter of 2006, we implemented a change related to the non-union vacation payment policy at Roadway to conform to practices at our other subsidiaries. The change in the vacation payment practice resulted in lower employee benefits expense for the National Transportation segment of \$11.8 million for the year ended December 31, 2006.

6. Debt and Financing

At December 31, total debt consisted of the following:

(in millions)	2007	2006
ABS borrowings, secured by accounts receivable	\$ 180.0	\$ 225.0
Floating rate notes		150.0
USF senior notes	259.9	264.7
Roadway senior notes	229.5	234.3
Contingent convertible senior notes	400.0	400.0
Term loan	150.0	
Revolving credit facility	5.1	
Industrial development bonds	9.5	9.5
Total debt	\$ 1,234.0	\$ 1,283.5
Current maturities of long-term debt	(232.0)	
ABS borrowings	(180.0)	(225.0)
Long-term debt	\$ 822.0	\$ 1,058.5

Asset Backed Securitization Facility

On August 17, 2007, we amended our asset backed securitization (ABS) facility to increase the financing limit to \$700 million, up from the previous limit of \$650 million. The ABS facility continues to provide a letter of credit sublimit of \$325 million. Under the terms of this agreement, the ABS facility involves receivables of National Transportation as well as USF Holland and USF Reddaway, two operating

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companies within Regional Transportation. The interest rate continues to be a variable rate based on A1/P1 rated commercial paper (5.30% at December 31, 2007), plus a fixed increment for utilization. No other material changes were made to the ABS facility. The expiration of the 364-day facility is May 16, 2008. On December 7, 2007, we amended our ABS facility to among other things, conform the financial covenant definitions in the accounts receivable purchase agreement to the financial covenant definitions in our Credit Agreement dated as of August 17, 2007. The covenants are more fully described below.

Table of Contents

Yellow Roadway Receivables Funding Corporation (YRRFC), a special purpose entity and wholly owned subsidiary of YRC Worldwide operates the ABS facility. Under the terms of the agreement, we may transfer trade receivables to YRRFC, which is designed to isolate the receivables for bankruptcy purposes. The third-party conduit must purchase from YRRFC an undivided ownership interest in those receivables. The percentage ownership interest in receivables that the conduit purchases may increase or decrease over time, depending on the characteristics of the receivables, including delinquency rates and debtor concentrations. Management will continue to evaluate the financial position of the participating operating companies, including the transferred receivables and related borrowings.

The table below provides the borrowing and repayment activity under the ABS facility, as well as the resulting balances, for the years ending December 31 of each period presented:

(in millions)	2007	2006
ABS obligations outstanding at January 1	\$ 225.0	\$ 375.0
Transfer of receivables to conduit (borrowings)	968.0	664.5
Redemptions from conduit (repayments)	(1,013.0)	(814.5)
ABS obligations outstanding at December 31	\$ 180.0	\$ 225.0

At December 31, 2007, our underlying accounts receivable supported total capacity under the ABS facility of \$598.9 million. In addition to the \$180.0 million outstanding above, the ABS facility capacity was also reduced by commitments related to our captive insurance company of \$201.4 million and outstanding letters of credit of \$127.7 million resulting in unused capacity of \$89.8 million at December 31, 2007.

Credit Agreement

On August 17, 2007, we entered into a Credit Agreement with certain banks, expiring August 17, 2012, that provides us with a \$1.1 billion senior unsecured credit facility, including sublimits available for borrowings under certain foreign currencies and a \$150 million senior unsecured term loan. The Credit Agreement also provides for letters of credit to be issued that would, in turn, reduce the borrowing capacity under the revolving credit facility. This agreement replaces our existing Amended and Restated Credit Agreement, dated as of May 19, 2005, that provided us with, among other things, an \$850 million senior unsecured revolving credit facility. As of December 31, 2007, \$5.1 million was drawn under the revolving credit facility, the term loan of \$150 million was outstanding and \$345.5 million letters of credit were issued. The proceeds from the term loan were used to redeem our Floating Rate Notes in December 2007.

Interest related to the Credit Agreement is based on our credit rating and is subject to change. Currently, amounts borrowed under the revolving credit facility and term loan bear interest at LIBOR plus 0.60% (5.2% at December 31, 2007) and LIBOR plus 0.875% (5.475% at December 31, 2007), respectively. Additionally, we are currently obligated to pay a facility fee equal to 0.15% of the total revolving credit facility commitment. In accordance with the terms of the Credit Agreement, we must comply with certain performance covenants. These covenants, specifically a leverage ratio, limit our overall indebtedness to the product of three times trailing twelve-month EBITDA, as defined. We also must comply with the requirements of an interest coverage ratio. As of December 31, 2007, we were in compliance with all terms of the Credit Agreement.

Floating Rate Notes

On May 24, 2005, we completed the private placement of \$150 million in aggregate principal amount of senior floating rate notes due 2008 (the Floating Rate Notes). We used the proceeds from the \$150 million private placement as a part of the financing for the acquisition of USF. The notes were later exchanged for registered notes as a part of an exchange offer in June 2005. On December 28, 2007, we redeemed the Floating Rates Notes in full.

USF Senior Notes

As part of our acquisition of USF and by virtue of the merger agreement, we assumed \$150 million aggregate principal amount of 8.5% senior notes due April 15, 2010, with interest payments due semi-annually on April 15 and October 15, and \$100 million aggregate principal amount of 6.5% senior notes due May 1, 2009 (collectively USF Senior Notes), with interest payments due semi-annually on May 1 and November 1. The USF Senior Notes were revalued as part of purchase accounting and assigned a fair value of \$272.2 million on May 24, 2005, with \$18.6 million fair value adjustment to the 2010 notes and \$3.6 million fair value adjustment to the 2009 notes. The premium over the face value of the USF Senior Notes is being amortized as a reduction to interest expense over the remaining life of the notes. The unamortized premium at

December 31, 2007 and 2006 was \$9.9 million and \$14.7 million, respectively.

Table of Contents

Roadway Senior Notes

As part of our acquisition of Roadway and by virtue of the merger agreement, we assumed \$225.0 million face value of 8.25% senior notes due in full on December 1, 2008 (Roadway Senior Notes), with interest payments due semi-annually on June 1 and December 1. The Roadway Senior Notes were revalued as part of purchase accounting and assigned a fair value of \$249.2 million on December 11, 2003. The premium over the face value of the Roadway Senior Notes is being amortized as a reduction to interest expense over the remaining life of the notes. The unamortized premium at December 31, 2007 and 2006 was \$4.5 million and \$9.3 million, respectively.

Contingent Convertible Notes

On August 8, 2003, we closed the sale of \$200 million of 5.0% contingent convertible senior notes due 2023 (contingent convertible senior notes) and on August 15, 2003 we closed the sale of an additional \$50 million of the notes pursuant to the exercise of the option of the initial purchasers. We received net proceeds from the sales of \$242.5 million, after fees.

The \$250 million contingent convertible senior notes have an annual interest rate of 5.0% and are convertible into shares of our common stock at a conversion price of \$39.24 per share only upon the occurrence of certain other events. The contingent convertible senior notes may not be redeemed by us for seven years from the date of issuance but are redeemable at any time thereafter at par. Holders of the contingent convertible senior notes have the option to require us to purchase their notes at par on August 8, 2010, 2013 and 2018, and upon a change in control of the Company. These terms and other material terms and conditions applicable to the contingent convertible senior notes are set forth in the indenture governing the notes.

On November 25, 2003, we closed the sale of \$150 million of 3.375% contingent convertible senior notes due 2023. We received net proceeds from the offering of \$145.5 million, after fees, and used the proceeds to fund the acquisition of Roadway.

The \$150 million contingent convertible senior notes have an annual interest rate of 3.375% and are convertible into shares of our common stock at a conversion price of \$46.00 per share only upon the occurrence of certain other events. The contingent convertible senior notes may not be redeemed by us for nine years from the date of issuance but are redeemable at any time thereafter at par. Holders of the contingent convertible senior notes have the option to require us to purchase their notes at par on November 25, 2012, 2015 and 2020, and upon a change in control of the Company. These terms and other material terms and conditions applicable to the contingent convertible senior notes are set forth in the indenture governing the notes.

In December 2004, we completed exchange offers pursuant to which holders of the 5% contingent convertible senior notes and the 3.375% contingent convertible senior notes (collectively, the Existing Notes) could exchange their Existing Notes for an equal amount of our new 5% net share settled contingent convertible senior notes due 2023 and new 3.375% net share settled contingent convertible senior notes due 2023 (collectively, the New Notes), respectively. The New Notes contain a net share settlement feature that, upon conversion, provides for the Company to settle the principal amount of the New Notes in cash and the excess value in common stock, as well as an additional change of control feature. The results of the exchange offer included \$247.7 million aggregate principal amount of the \$250 million of 5% contingent convertible senior notes outstanding and \$144.6 million aggregate principal amount of the \$150 million of 3.375% contingent convertible senior notes outstanding, representing 99.06% and 96.41%, respectively, of the Existing Notes validly and timely tendered in exchange for an equal principal amount of the New Notes.

The accounting for convertible debt with the settlement features contained in our New Notes is addressed in the consensus reached by the Emerging Issues Task Force of the Financial Accounting Standards Board with respect to the accounting for Instrument C as set forth in EITF 90-19, Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion. We are contractually obligated to settle the conversion obligations of the New Notes consistent with Instrument C. Because the accreted value of the New Notes will be settled for cash upon the conversion, only the conversion spread (the excess conversion value over the accreted value), which will be settled in stock, results in potential dilution in our earnings per share computations. (See further discussion of dilution related to the Existing Notes and the New Notes in Note 10. Earnings Per Common Share.)

The balance sheet classification of the New Notes between short-term and long-term is dependent upon certain conversion triggers, as defined. At December 31, 2007 and 2006, no conversion triggers had been met. Accordingly, based on the effective maturity date, this obligation has been classified as a long-term liability in the accompanying consolidated balance sheets. The future balance sheet classification of these liabilities will be monitored at each reporting date, and will be determined based on an analysis of the various conversion rights described above.

Table of Contents**Industrial Development Bonds**

We have loan guarantees, mortgages, and lease contracts in connection with the issuance of industrial development bonds (IDBs) used to acquire, construct or expand terminal facilities. Rates on these bonds range from 5.8% to 6.1%, with principal payments due through 2010.

The principal maturities of total debt for the next five years and thereafter are as follows:

(in millions)	IDBs	Contingent	Roadway	USF	Term Loan	Revolver	ABS	Total
		convertible senior notes	Senior Notes	Senior Notes				
2008	\$ 2.5	\$	\$ 225.0 ^(a)	\$	\$	\$ 5.1	\$ 180.0	\$ 412.6
2009	1.0			100.0 ^(b)				101.0
2010	6.0	250.0		150.0 ^(c)				406.0
2011								
2012		150.0			150.0			300.0
Thereafter								
Total	\$ 9.5	\$ 400.0	\$ 225.0	\$ 250.0	\$ 150.0	\$ 5.1	\$ 180.0	\$ 1,219.6

(a) As discussed above, the Roadway senior notes had a carrying value of \$229.5 million at December 31, 2007 and a principal maturity value of \$225.0 million.

(b) As discussed above, the USF senior notes due 2009 had a carrying value of \$101.2 million at December 31, 2007 and a principal maturity value of \$100.0 million.

(c) As discussed above, the USF senior notes due 2010 had a carrying value of \$158.7 million at December 31, 2007 and a principal maturity value of \$150.0 million.

The above reflects contractual maturities for all debt other than our contingent convertible senior notes. These notes are instead presented based on the earliest possible redemption date defined as the first date on which the note holders have the option to require us to purchase their notes (the put date). For the \$250 million notes the stated maturity is August 2023 with an initial put date of August 2010 and for the \$150 million notes the stated maturity is November 2023 with an initial put date of November 2012.

Based on the borrowing rates currently available to us for debt with similar terms and remaining maturities and the quoted market prices for the Roadway senior notes and USF senior notes and contingent convertible senior notes, the fair value of fixed-rate debt at December 31, 2007 and 2006, was approximately \$856.5 million and \$987.9 million, respectively. The carrying amount of such fixed-rate debt at December 31, 2007 and 2006 was \$898.9 million and \$908.5 million, respectively.

7. Stock Compensation Plans

We have reserved 3.43 million shares of our common stock for issuance to key management personnel under a long-term incentive and equity award plan implemented in 2004. As of December 31, 2007, 1.2 million shares remain available for issuance. The 2004 plan permits the issuance of restricted stock and restricted stock units, as well as options, SARs, and performance stock and performance stock unit awards.

Awards under the plan can be made in cash and performance share units at the discretion of the Board of Directors. According to the plan provisions, the stock units provide the holders the right to receive one share of common stock upon vesting of one stock unit.

The stock option plans generally permit grants of nonqualified stock options and grants of stock options coupled with a grant of stock appreciation rights (SARs). Under the plans, the exercise price of each option equals the closing market price of our common stock on the date of grant. The options vest ratably, generally over a period of four years, and expire ten years from the date of the grant.

Table of Contents

A summary of activity in our stock option plans is presented in the following table:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2004	998	\$ 23.04		
Granted	23	43.46		
Exercised	(368)	21.01		
Forfeited / expired	(6)	28.82		
Outstanding at December 31, 2005	647	\$ 24.87		
Granted				
Exercised	(185)	25.89		
Forfeited / expired	(14)	26.04		
Outstanding at December 31, 2006	448	\$ 24.48		
Granted				
Exercised	(221)	22.59		
Forfeited / expired	(11)	26.91		
Outstanding at December 31, 2007	216	\$ 26.29	4.25	\$ 0.1
Exercisable at December 31, 2007	210	25.78	4.15	0.1

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was \$4.7 million and \$3.0 million, respectively. During the year ended December 31, 2007 and 2006, we did not grant any option awards. Traditionally, the fair value of each option is estimated on the date of grant using the Black-Scholes-Merton pricing model. Expected volatilities are based on implied volatilities from historical volatility of our stock. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model.

The following table summarizes information about stock options outstanding as of December 31, 2007:

Range of exercise prices	Shares (in thousands)	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Years	Weighted Average Exercise price	Shares (in thousands)	Weighted Average Exercise price
\$ 0.00 14.06	4	2.55	14.06	4	14.06
\$ 14.07 22.66	58	2.33	15.59	58	15.59
\$ 22.67 31.58	127	4.47	28.29	127	28.29
\$ 31.59 and over	27	7.52	41.30	21	40.67

Table of Contents

A summary of the activity of our nonvested shares is presented in the following table:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2004	428	\$ 38.58
Granted	355	57.67
Vested	(17)	36.86
Forfeited	(10)	45.50
Nonvested at December 31, 2005	756	47.50
Granted	352	47.10
Vested	(106)	47.47
Forfeited	(14)	47.47
Nonvested at December 31, 2006	988	47.36
Granted	307	39.99
Vested	(178)	40.06
Forfeited	(36)	47.60
Nonvested at December 31, 2007	1,081	\$ 46.46

We recognize expense on a straight-line basis over the vesting term. The vesting provisions for the restricted stock units and the related number of units awarded during the year ended December 31 are as follows:

Vesting Terms	Units (in thousands)		
	2007	2006	2005
50% to vest over three years with remaining 50% to vest over six years from the date of grant		142	173
100% on the third anniversary of the date of grant	275	147	138
Ratably over three years	32	29	23
40% in the first year, 30% each year for the next two years		2	21
100% on the fifth anniversary of the date of grant		32	
Total restricted stock units granted		307	352
			355

As of December 31, 2007 and 2006, there was \$13.8 and \$21.0 million, respectively of unrecognized compensation expense related to nonvested share-based compensation arrangements. That expense is expected to be recognized over a weighted-average period of 3.0 years. The fair value of nonvested shares is determined based on the opening trading price of our shares on the grant date. The fair value of shares vested during the years ended December 31, 2007 and 2006 was \$7.1 and \$5.0 million, respectively.

8. Income Taxes

We use the liability method to reflect income taxes on our financial statements. We recognize deferred tax assets and liabilities by applying enacted tax rates to the differences between the carrying value of existing assets and liabilities and their respective tax basis and to loss carryovers. Realizable tax credit carryforwards are recorded as deferred tax assets. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change occurs, other than certain changes related to business combinations. We assess the validity of deferred tax assets and loss and tax credit carryforwards and provide valuation allowances when we determine it is more likely than not that such losses or credits will not be realized within the applicable carryforward period. We have not recognized deferred taxes relative to foreign subsidiaries earnings that are deemed to be permanently reinvested. Any related taxes associated with such earnings are not material.

Table of Contents

Deferred tax liabilities (assets) were comprised of the following at December 31:

(in millions)	2007	2006
Depreciation	\$ 433.5	\$ 408.6
Prepays	0.6	3.3
Prepaid employee benefits	16.9	52.0
Revenue on shipments in transit	34.8	29.5
Intangibles	192.0	165.6
Other	60.5	75.7
Gross tax liabilities	738.3	734.7
Claims and insurance	(87.1)	(83.7)
Bad debts	(13.9)	(15.9)
Employee benefit accruals	(105.7)	(99.2)
Revenue reserves	(10.3)	(6.9)
Other	(40.7)	(54.6)
Gross tax assets	(257.7)	(260.3)
Net tax liability	\$ 480.6	\$ 474.4

Current income tax receivable was \$77.5 million and \$92.2 million as of December 31, 2007 and 2006, respectively, and is included in Prepaid expenses and other in the accompanying balance sheets.

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate follows:

	2007	2006	2005
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net	0.2	2.7	2.2
Goodwill impairment	(34.3)		
Nondeductible business expenses	(0.7)	1.1	1.0
Foreign tax credit and rate differential	(0.1)	0.2	0.1
Alternative fuel tax credit	1.4		
Other, net	0.5	0.3	0.7
Effective tax rate	2.0%	39.3%	39.0%

The income tax provision (benefit) consisted of the following:

(in millions)	2007	2006	2005
Current:			
U.S federal	\$ (22.3)	\$ 6.5	\$ 116.3
State	(4.4)	1.2	9.4
Foreign	4.8	10.4	5.8
Current income tax provision (benefit)	\$ (21.9)	\$ 18.1	\$ 131.5

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Deferred:				
U.S federal	\$	5.4	\$ 143.9	\$ 46.8
State		2.4	19.1	6.2
Foreign		0.8	(1.8)	(0.4)
Deferred income tax provision (benefit)	\$	8.6	\$ 161.2	\$ 52.6
Income tax provision (benefit)	\$	(13.3)	\$ 179.3	\$ 184.1
Based on the income (loss) before income taxes:				
Domestic	\$	(662.7)	\$ 441.4	\$ 460.8
Foreign		11.0	14.6	11.5
Income (loss) before income taxes	\$	(651.7)	\$ 456.0	\$ 472.3

Table of Contents

Uncertain Tax Positions

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result, we recognized a \$7.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of \$5.7 million to the January 1, 2007 balance of retained earnings and an increase of \$1.4 million to goodwill resulting from prior acquisitions. Additionally, we reclassified a \$53 million credit from current assets, Deferred income taxes to Other current and accrued liabilities effective January 1, 2007. We have elected to treat interest and penalties on uncertain tax positions as interest expense and other operating expenses, respectively, rather than continue the treatment prior to the adoption of FIN 48 as components of the income tax provision.

The total amounts of unrecognized tax benefits and accrued interest as of the date of adoption were \$78.3 million and \$2.1 million, respectively.

Both amounts are classified on our consolidated balance sheet within Other current and accrued liabilities .

A rollforward of the total amount of unrecognized tax benefits for the year ended December 31, 2007, follows:

(in millions)	
Unrecognized tax benefits at January 1, 2007	\$ 78.3
Increases related to:	
Tax positions taken during a prior period	1.4
Tax positions taken during the current period	1.8
Decreases related to:	
Tax positions taken during a prior period	(5.0)
Lapse of applicable statute of limitations	
Settlements with taxing authorities	(0.6)
Unrecognized tax benefits at December 31, 2007	\$ 75.9

Included in the \$75.9 million of unrecognized tax benefits at December 31, 2007 was \$6.6 million of benefits that, if recognized, would affect the effective tax rate. We accrued \$5.6 million of interest on uncertain tax positions during the year ended December 31, 2007 and the total amount of interest accrued for uncertain tax positions is \$7.4 million as of December 31, 2007. We have not accrued any penalties relative to uncertain tax positions.

Reasonably possible changes in the next twelve months in the amount of unrecognized tax benefits relate to the following tax positions:

The United States Internal Revenue Service (IRS) has begun an audit of the Company s 2005 tax return and has proposed an adjustment relative to the deduction claimed for contributions to union pension plans. We are protesting the adjustment. The additional tax that could result from the adjustment is approximately \$51.1 million. Pursuant to the provisions of FIN 48, we have posted no tax benefit for this deduction.

The IRS has audited certain pre-acquisition tax returns for a consolidated group acquired in 2005 and disallowed a 2002 loss related to the disposition of the stock of a member of that group. We believe the loss is fully deductible and have protested the IRS adjustment. The additional tax that could result should the loss ultimately be totally denied is approximately \$36.5 million.

Tax years that remain subject to examination for our major tax jurisdictions as of December 31, 2007:

	Pre-acquisition tax years		
	YRC Worldwide	USF Corporation ^(a)	Roadway ^(b)
Statute remains open	2003-2007	2000-2005	2001-03
Tax years currently under examination/exam completed	2003-2005	2000-2005	2001-03
Tax years not examined	2006-2007	None	None

- (a) Years ending on or before May 24, 2005.
- (b) Years ending on or before December 11, 2003.

Table of Contents

9. Business Segments

We report financial and descriptive information about our reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. We evaluate performance primarily on operating income and return on capital.

We have three reportable segments, which are strategic business units that offer complementary transportation services to their customers. National Transportation includes carriers that provide comprehensive regional, national and international transportation services. Regional Transportation is comprised of carriers that focus primarily on business opportunities in the regional and next-day delivery markets. YRC Logistics, previously referred to as our Meridian IQ segment, provides domestic and international freight forwarding, warehousing and cross-dock services, multi-modal brokerage services, and transportation management services.

Information relative to USF Red Star and USF Dugan, previously included in Regional Transportation, has been included in the Corporate segment beginning in 2006 as these entities are no longer operating.

Prior to 2007 we reported four operating segments. In January 2007, we consolidated the management structure of Yellow Transportation and Roadway to form YRC National Transportation. Accordingly, beginning in 2007 these two previously separate segments have been combined. Amounts presented for 2006 and 2005 have been restated to reflect this change.

The accounting policies of the segments are the same as those described in the Principles of Consolidation and Summary of Accounting Policies note. The USF accounting policies have been conformed to YRC Worldwide effective as of May 24, 2005. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate operating losses represent operating expenses of the holding company, including compensation and benefits, along with incentive compensation and professional services for all periods presented. In 2007, corporate operating losses included executive severance of \$9.5 million offset by reduced professional services fees and stock compensation expense totaling \$3.5 million. In 2006, corporate operating losses included \$13.3 million of expense related to USF Red Star MEPPA withdrawal liability and \$1.6 million of reorganization charges. In 2005, corporate operating losses included \$4.0 million of executive severance charges and \$0.7 million of acquisition charges. Corporate identifiable assets primarily refer to cash, cash equivalents, technology assets and deferred debt issuance costs. Intersegment revenue relates to transportation services between our segments.

Revenue from foreign sources totaled \$385.5 million, \$370.2 million, and \$328.6 million in 2007, 2006, and 2005 respectively, and is largely derived from Canada, United Kingdom, Asia and Mexico. Long-lived assets located in foreign countries totaled \$41.8 million and \$25.8 million at December 31, 2007 and 2006, respectively.

Table of Contents

The following table summarizes our operations by business segment:

(in millions)	National Transportation	Regional ^(a) Transportation	YRC Logistics ^(b)	Corporate / Eliminations	Consolidated
2007					
External revenue	\$ 6,654.7	\$ 2,369.6	\$ 597.0	\$	\$ 9,621.3
Intersegment revenue	3.1		26.2	(29.3)	
Operating income (loss)	159.3	(706.7)	5.2	(22.9)	(565.1)
Identifiable assets	3,139.1	1,503.8	426.4	(6.7)	5,062.6
Capital expenditures, net	174.0	96.7	18.6	49.1	338.4
Depreciation and amortization	142.4 ^(c)	77.5	15.8	19.9	255.6
Impairment charges	76.6	705.3			781.9
2006					
External revenue	\$ 6,873.6	\$ 2,441.4	\$ 603.7	\$	\$ 9,918.7
Intersegment revenue	5.0		6.0	(11.0)	
Operating income (loss)	423.3	142.2	13.7	(33.8)	545.4
Identifiable assets	3,269.1	2,179.2	413.5	(10.0)	5,851.8
Capital expenditures, net	211.9	46.9	16.3	28.0	303.1
Depreciation and amortization	159.6	82.8	14.7	17.1	274.2
2005					
External revenue	\$ 6,733.4	\$ 1,564.4	\$ 443.8	\$	\$ 8,741.6
Intersegment revenue	1.9	6.4	3.8	(12.1)	
Operating income (loss)	464.4	85.8	15.2	(29.1)	536.3
Identifiable assets	3,140.1	2,099.3	279.4	215.4	5,734.2
Capital expenditures, net	135.6	82.3	12.0	26.5	256.4
Depreciation and amortization	159.1	67.1	10.7	13.7	250.6

- (a) In 2005, the segment information shown for Regional Transportation represented New Penn results for the fiscal year end and USF income statement and capital expenditure information from the date of acquisition May 24, through December 31, 2005 and identifiable assets as of December 31, 2005.
- (b) In 2005, the segment information shown for YRC Logistics includes the results of USF Logistics from the date of acquisition, May 24, through December 31, 2005 and identifiable assets as of December 31, 2005.
- (c) Included in the depreciation and amortization balance in the National Transportation segment for 2007 is approximately \$9 million of allocated costs related to certain abandoned technology projects previously considered in-process. As National Transportation moves to a common technology platform, these projects were identified as non-strategic and not a part of the future direction of the reporting unit.

10. Earnings per Common Share

We present both basic and diluted earnings per share (EPS) amounts. Basic EPS is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted EPS is based upon the weighted average number of common and common equivalent shares outstanding during the year which is calculated using the treasury stock method for stock options and restricted stock units and assumes conversion of our convertible senior notes based on the related fiscal year financial data.

(in thousands except per share data)	2007	2006	2005
Numerator:			
Net income(loss) for basic earnings (loss) per share	\$ (638,381)	\$ 276,632	\$ 288,130
Interest expense on convertible senior notes (net of tax)		182	183
Net income (loss) for diluted earnings (loss) per share	(638,381)	\$ 276,814	\$ 288,313

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Denominator:				
Weighted average number of common shares outstanding (basic)	57,154	57,361	54,358	
Weighted average dilutive stock options and restricted stock units		470	658	
Assumed conversion of convertible senior notes		508	1,889	
Weighted average number of common and common equivalent shares outstanding (diluted)	57,154	58,339	56,905	
Basic earnings (loss) per share	\$ (11.17)	\$ 4.82	\$ 5.30	
Diluted earnings (loss) per share	\$ (11.17)	\$ 4.74	\$ 5.07	

Table of Contents

The impacts of certain options and restricted stock units were excluded from the calculation of diluted earnings per share because the effects are antidilutive. In addition, the computation of the assumed conversion of the convertible senior notes includes inputs of the year-to-date average stock price relative to the stated conversion price. If this relationship is such that the year-to-date average stock price is less than the stated conversion price, the computed shares would be antidilutive under the treasury stock method. Data regarding antidilutive options and restricted stock units is summarized below:

(in thousands except per share data)	2007	2006	2005
Antidilutive weighted average option shares outstanding	216	23	
Weighted average exercise price	\$ 26.29	\$ 43.46	\$
Antidilutive weighted average restricted stock units outstanding	1,081		
Weighted average exercise price	\$ 46.46	\$	\$

Antidilutive convertible senior note conversion shares were 2,128,000 and 348,000 at December 31, 2007 and 2006, respectively. There were no such antidilutive shares at December 31, 2005.

11. Common Stock Repurchase Programs

In April 2006, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to \$100 million of its common stock. During 2007, the Company purchased 1.1 million shares under this program at a weighted-average cost of \$31.13 per share for a total cost of \$35.0 million. In 2006, the Company purchased 521,100 shares under this program at a weighted-average cost of \$38.34 per share for a total cost of \$20.0 million. At December 31, 2007, \$45 million remains available under the authorized program.

In September 2005, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to \$50 million of our common stock. During 2005, we repurchased approximately 1.1 million shares at a weighted-average cost of \$46.95 per share for a total cost of approximately \$50 million.

12. Commitments, Contingencies, and Uncertainties*Financial Matters*

We incur rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to operating expense and supplies or purchased transportation on the Statements of Consolidated Operations. Rental expense was \$144.6 million, \$157.7 million, and \$132.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

At December 31, 2007, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

(in millions)	2008	2009	2010	2011	2012	Thereafter
Minimum annual rentals	\$ 101.7	\$ 69.0	\$ 40.6	\$ 21.5	\$ 15.9	\$ 19.2

We expect in the ordinary course of business that leases will be renewed or replaced as they expire. The leases provide for fixed and escalating rentals and contingent escalating rentals based on the Consumer Price Index not to exceed certain specified amounts. We record rent expense for our operating leases on a straight-line basis over the base term of the lease agreements. In many cases our leases are entered into by a subsidiary and a parent guarantee is issued. The maximum potential amount of undiscounted future payments under the guarantee are the same as the minimum annual rentals disclosed above.

Projected 2008 net capital expenditures are expected to be \$200 to \$250 million of which approximately \$80.0 million was committed at December 31, 2007.

Shanghai Jiayu Logistics Co., Ltd.

In December 2007, we entered into a definitive agreement to acquire majority ownership of Shanghai Jiayu Logistics Co., Ltd., a Shanghai, China ground transportation company. We plan to acquire 65% of the stock of Jiayu for between US \$29.5 million to

Table of Contents

US \$43 million, based upon Jiayu's final 2007 financial performance. Pursuant to the definitive agreement, YRC Logistics will acquire 65% of the stock of Jiayu for Chinese Yuan (CNY) 228.6 million plus an additional payment of up to CNY 104.6 million (approximately \$29.5 million to \$43 million) based upon Jiayu's 2007 financial performance. If Jiayu meets certain financial performance targets during 2008 and 2009, YRC Logistics will purchase the remaining 35% interest in 2010 for an amount not to exceed CNY 248.0 million (approximately \$32 million), as determined by the level of the financial performance. If Jiayu does not meet these financial targets, YRC Logistics has a call option to purchase the remaining 35% of the shares of Jiayu in 2010 for the greater of CNY 77.5 million (approximately \$10 million) and 35% of the appraised value of the net assets of Jiayu at that time. All payments will be made in Chinese Yuan, and their estimated dollar equivalents are provided herein. The acquisition is subject to Chinese regulatory approvals, restructuring of certain of Jiayu's operations and other ordinary conditions to closing. We expect the first step of this acquisition to be completed in 2008. We are capitalizing transaction costs incurred related to this acquisition, the balance of which is not significant at December 31, 2007.

Class Action Lawsuit

On July 30, 2007, Farm Water Technological Services, Inc. d/b/a Water Tech, and C.B.J.T. d/b/a Agricultural Supply, on behalf of themselves and other plaintiffs, filed a putative class action lawsuit against the Company and 10 other companies engaged in the LTL trucking business in the United States District Court for the Southern District of California. Since that time, other plaintiffs have filed similar cases in various courts across the nation. In December 2007, the courts consolidated these cases in the United States District Court for the Northern District of Georgia.

The plaintiffs allege that the defendants, including the Company, conspired to fix fuel surcharges in violation of federal antitrust law and seek unspecified treble damages, injunctive relief, attorneys' fees and costs of litigation. The Company believes that its fuel surcharge practices are lawful and these suits are without factual basis or legal merit. An appropriate defense has begun, and the Company intends to defend these allegations vigorously. Given that the actions are at a very preliminary stage, the Company is not able to determine that any potential liability that might result is probable or estimatable and, therefore, the Company has not recorded a liability related to the actions. If an adverse outcome were to occur, it could have a material adverse effect on the Company's consolidated financial condition, cash flows and results of operations.

Grupo Almex

On May 18, 2007, the Company settled the arbitration proceedings initiated against the Company by Gustavo Gonzalez Garcia and various members of his family (the Gonzalez Family) and Autolineas Mexicanas, S.A. de C.V., Servicios Gerenciales del Norte, S.A. de C.V. and Logistica ALM, S.A. de C.V. (collectively, Grupo Almex). Pursuant to the settlement, the Company paid the Gonzalez Family and Grupo Almex \$2.0 million and forgave approximately \$9.3 million of debt that Soflex, S. de R.L. de C.V. (Soflex) owed to the Company pursuant to a series of notes. The Gonzalez Family wholly owns Soflex. The notes from Soflex were written off as uncollectible debt in 2005 as part of the Company's acquisition consideration for USF Corporation. The Company accrued \$0.6 million in 2006 of the \$2.0 million settlement. The remaining \$1.4 million was expensed in 2007 and is included in Reorganization and settlements in the accompanying consolidated statement of operations.

USF Red Star

In 2004, USF Red Star, a USF subsidiary that operated in the Northeastern U.S. was shut down. Due to the shutdown, USF, now our wholly owned subsidiary, was subject to withdrawal liability under the Multi-Employer Pension Plan Amendment Act of 1980 for six multi-employer pension plans. Based on information that USF had received from these plans, we estimated that USF Red Star could be liable for up to approximately \$79 million. However, we also estimated that approximately \$13 million of this liability could be abated because of contributions that Yellow Transportation, Roadway, New Penn and USF Holland made to one of these six plans. Thus, at the May 2005 purchase date, we reserved approximately \$66 million, representing the present value, for these liabilities. We recognized those liabilities as an obligation assumed on the acquisition date of USF, resulting in additional goodwill.

During 2006, we received notification of the successful abatement of one of the six plans. As a result, payments of approximately \$2.9 million previously remitted to the plan and held in escrow were returned to us. Further, we received notification that a plan previously thought to be abated in fact was not abated resulting in a \$13.3 million charge (\$8.1 million net of tax) during the year ended December 31, 2006, to establish the required liability. Our USF Red Star withdrawal liability at December 31, 2006 was \$59.1 million and was presented in claims and other liabilities in the consolidated balance sheets. During the year ended December 31, 2007, we reached a settlement agreement with all of the remaining plans aside from the plan that denied our abatement claim in 2006. As a part of the settlements, we agreed to pay \$35.8 million to be released from the obligations. As we previously accrued \$42.2 million for these obligations, resulting gains on settlement of \$6.4 million were recorded during 2007 and are included in Reorganization and settlements in the accompanying consolidated statement of operations. Our USF Red Star withdrawal liability at December 31, 2007 is \$8.2 million. We are continuing to review the details of the remaining fund obligation and may contest all or a portion of the liability. Until further resolution the expected annual cash flow relative to this liability is approximately \$1.7 million.

Table of Contents

In November 2004, the Teamsters National Freight Industry Negotiating Committee (the Teamsters) filed a complaint against USF, USF Red Star and USF Holland alleging (among other things) that the shut down of USF Red Star was in breach of USF Red Star's labor contract. Additionally, the Teamsters filed a class action suit on behalf of the employees of USF Red Star alleging violations of the federal Worker Adjustment and Retraining Notification Act (WARN Act). Including the Teamsters WARN action mentioned above, either or both of USF or USF Red Star were named in five class action lawsuits alleging violations of the federal WARN Act. USF Red Star sued the Teamsters in connection with their strike on USF Red Star prior to its closure, alleging that the strike was in breach of Teamsters' labor contract and that the strike was illegal secondary conduct under the National Labor Relations Act. In 2006, the Teamsters, USF, USF Holland, USF Red Star and the WARN class action plaintiffs settled all of these disputes arising out of the USF Red Star shutdown. Pursuant to the settlement, USF Red Star paid the WARN Act plaintiffs \$7 million; the WARN Act plaintiffs released USF Red Star, USF Holland and USF from any further liability; and certain related labor grievances are settled. We recognized this settlement obligation as a liability assumed on the acquisition date of USF, resulting in additional goodwill.

Other Legal Matters

We are involved in other litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and amount of such insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain self-insured retentions in amounts we deem prudent. Based on our current assessment of information available as of the date of these financial statements, we believe that our financial statements include adequate provisions for estimated costs and losses that may be incurred with regard to the litigation and proceedings to which we are a party.

Environmental Matters

Remediation costs are accrued based on estimates of known environmental remediation exposure using currently available facts, existing environmental permits and technology and presently enacted laws and regulations. Our estimates of costs are developed based on internal evaluations and, when necessary, recommendations from external environmental consultants. These accruals are recorded when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related costs, and the amounts can be reasonably estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. These accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. See additional discussion under Environmental Matters in Item 1, Business and under Asset Retirement Obligations in the Principles of Consolidation and Summary of Accounting Policies note to our consolidated financial statements.

13. Subsequent Events

In February 2008, USF Reddaway closed 21 service centers primarily representing the former USF Bestway footprint. USF Holland closed six service centers at the same time. As a part of these closings, we incurred certain restructuring and other closure costs of approximately \$10 million in the first quarter of 2008.

In February 2008, the Teamsters ratified a new five-year labor contract that replaces our current agreement when it expires on March 31, 2008.

Table of Contents**14. Condensed Consolidating Financial Statements****Guarantees of the Contingent Convertible Senior Notes**

In August 2003, YRC Worldwide issued 5.0% contingent convertible senior notes due 2023. In November 2003, we issued 3.375% contingent convertible senior notes due 2023. In December 2004, we completed exchange offers pursuant to which holders of the contingent convertible senior notes could exchange their notes for an equal amount of new net share settled contingent convertible senior notes. Substantially all notes were exchanged as part of the exchange offers. In connection with the net share settled contingent convertible senior notes, the following 100% owned subsidiaries of YRC Worldwide have issued guarantees in favor of the holders of the net share settled contingent convertible senior notes: Yellow Transportation, Inc., Mission Supply Company, Yellow Relocation Services, Inc., YRC Worldwide Technologies, Inc., YRC Logistics, Inc. (formerly Meridian IQ Inc.), YRC Logistics Global, LLC. (formerly MIQ, LLC), Globe.com Lines, Inc., Roadway LLC, Roadway Next Day Corporation, and Roadway Express, Inc. Each of the guarantees is full and unconditional and joint and several.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information as of December 31, 2007 and 2006 with respect to the financial position and for the years ended December 31, 2007, 2006 and 2005 for results of operations and cash flows of YRC Worldwide and its subsidiaries. The Parent column presents the financial information of YRC Worldwide, the primary obligor of the contingent convertible senior notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the net share settled contingent convertible senior notes. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement. Guarantees issued by USF Holland Inc. and Regional Transportation were released in 2007 and these subsidiaries moved from Guarantor subsidiaries to Non-Guarantor subsidiaries in the following financial statements as of and for the year ended December 31, 2007.

Condensed Consolidating Balance Sheets

December 31, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ 26	\$ 15	\$ 17	\$	\$ 58
Intercompany advances receivable		(65)	65		
Accounts receivable, net	3	(25)	1,101	(5)	1,074
Prepaid expenses and other	76	99	71		246
Total current assets	105	24	1,254	(5)	1,378
Property and equipment	1	2,967	1,116		4,084
Less accumulated depreciation	(1)	(1,468)	(235)		(1,704)
Net property and equipment		1,499	881		2,380
Investment in subsidiaries	3,280	93	203	(3,576)	
Receivable from affiliate	(898)	488	410		
Goodwill and other assets	258	985	412	(350)	1,305
Total assets	\$ 2,745	\$ 3,089	\$ 3,160	\$ (3,931)	\$ 5,063
Intercompany advances payable	\$ 342	\$ (294)	\$ 157	\$ (205)	\$
Accounts payable	12	264	112		388
Wages, vacations and employees benefits	29	285	112		426
Claims and insurance accruals	34	27	107		168
Other current and accrued liabilities	18	122	62		202

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Asset backed securitization borrowings			180		180
Current maturities of long-term debt		232			232
Total current liabilities	435	636	730	(205)	1,596
Payable to affiliate	(117)	44	223	(150)	
Long-term debt, less current portion	554	7	261		822
Deferred income taxes, net	19	307	196		522
Pension and postretirement	180				180
Claims and other liabilities	84	3	244		331
Commitments and contingencies					
Shareholders' equity	1,590	2,092	1,506	(3,576)	1,612
Total liabilities and shareholders' equity	\$ 2,745	\$ 3,089	\$ 3,160	\$ (3,931)	\$ 5,063

Table of Contents**December 31, 2006**

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ 20	\$ 21	\$ 35	\$	\$ 76
Intercompany advances receivable		(68)	68		
Accounts receivable, net	5	11	1,193	(18)	1,191
Prepaid expenses and other	22	193	9		224
Total current assets	47	157	1,305	(18)	1,491
Property and equipment	1	3,258	583		3,842
Less accumulated depreciation	(1)	(1,461)	(110)		(1,572)
Net property and equipment		1,797	473		2,270
Investment in subsidiaries	3,372	254	5	(3,631)	
Receivable from affiliate	(563)	426	137		
Goodwill and other assets	262	1,869	310	(350)	2,091
Total assets	\$ 3,118	\$ 4,503	\$ 2,230	\$ (3,999)	\$ 5,852
Intercompany advances payable	\$ 402	\$ (548)	\$ 355	\$ (209)	\$
Accounts payable	15	321	71	(9)	398
Wages, vacations and employees benefits	15	338	61		414
Claims and insurance accruals		50	140		190
Other current and accrued liabilities	18	85	31		134
Asset backed securitization borrowings			225		225
Total current liabilities	450	246	883	(218)	1,361
Payable to affiliate	(101)	28	223	(150)	
Long-term debt, less current portion	550	508			1,058
Deferred income taxes, net	18	430	61		509
Pension and postretirement	350				350
Claims and other liabilities	12	38	332		382
Commitments and contingencies					
Shareholders equity	1,839	3,253	731	(3,631)	2,192
Total liabilities and shareholders equity	\$ 3,118	\$ 4,503	\$ 2,230	\$ (3,999)	\$ 5,852

Condensed Consolidating Statements of Operations

For the year ended December 31, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 45	\$ 6,724	\$ 3,233	\$ (381)	\$ 9,621
Operating expenses:					
Salaries, wages and employees benefits	35	3,797	1,909		5,741
Operating expenses and supplies	26	1,345	842	(348)	1,865
Purchased transportation		780	344	(35)	1,089
Depreciation and amortization		159	97		256
Other operating expenses		296	141		437
Gains on property disposals, net		(8)	2		(6)
Reorganization and settlements	10	7	5		22
Impairment charges		76	706		782

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Total operating expenses	71	6,452	4,046	(383)	10,186
Operating income (loss)	(26)	272	(813)	2	(565)
Nonoperating (income) expenses:					
Interest expense	36	18	35		89
Other, net	27	195	(226)	2	(2)
Nonoperating (income) expenses, net	63	213	(191)	2	87
Income (loss) before income taxes	(89)	59	(622)		(652)
Income tax provision (benefit)	(26)	7	5		(14)
Net income (loss)	\$ (63)	\$ 52	\$ (627)	\$	\$ (638)

Table of Contents**For the year ended December 31, 2006**

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 53	\$ 8,429	\$ 1,889	\$ (452)	\$ 9,919
Operating expenses:					
Salaries, wages and employees benefits	38	4,848	931	(81)	5,736
Operating expenses and supplies	35	1,615	488	(319)	1,819
Purchased transportation		840	271	(20)	1,091
Depreciation and amortization		215	59		274
Other operating expenses		370	66		436
Gains on property disposals, net		(6)	(2)		(8)
Reorganization and settlements		8	18		26
Total operating expenses	73	7,890	1,831	(420)	9,374
Operating income (loss)	(20)	539	58	(32)	545
Nonoperating (income) expenses:					
Interest expense	34	29	25		88
Other, net	20	150	(137)	(32)	1
Nonoperating (income) expenses, net	54	179	(112)	(32)	89
Income (loss) before income taxes	(74)	360	170		456
Income tax provision (benefit)	(6)	122	63		179
Net income (loss)	\$ (68)	\$ 238	\$ 107	\$	\$ 277

For the year ended December 31, 2005

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 61	\$ 7,693	\$ 1,395	\$ (408)	\$ 8,741
Operating expenses:					
Salaries, wages and employees benefits	48	4,454	649	(40)	5,111
Operating expenses and supplies	35	1,430	282	(309)	1,438
Purchased transportation		743	271	(23)	991
Depreciation and amortization		202	49		251
Other operating expenses		361	51	(6)	406
Gains on property disposals, net		(5)			(5)
Reorganization and settlements	5	2	6		13
Total operating expenses	88	7,187	1,308	(378)	8,205
Operating income (loss)	(27)	506	87	(30)	536
Nonoperating (income) expenses:					
Interest expense	36	32	72	(77)	63
Other, net	(346)	180	(197)	364	1
Nonoperating (income) expenses, net	(310)	212	(125)	287	64
Income (loss) before income taxes	283	294	212	(317)	472

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Income tax provision (benefit)	(1)	108	77	184	
Net income (loss)	\$ 284	\$ 186	\$ 135	\$ (317)	\$ 288

Table of Contents

Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ (219)	\$ 417	\$ 195	\$	\$ 393
Investing activities:					
Acquisition of property and equipment		(251)	(143)		(394)
Proceeds from disposal of property and equipment		23	32		55
Other	(2)	1	(1)		(2)
Net cash used in investing activities	(2)	(227)	(112)		(341)
Financing activities:					
ABS borrowings, net			(45)		(45)
Issuance of long-term debt, net	4		1		5
Debt issuance costs	(1)				(1)
Treasury stock purchases	(35)				(35)
Proceeds from exercise of stock options	6				6
Intercompany advances / repayments	253	(196)	(57)		
Net cash provided by (used in) financing activities	227	(196)	(101)		(70)
Net increase (decrease) in cash and cash equivalents	6	(6)	(18)		(18)
Cash and cash equivalents, beginning of year	20	21	35		76
Cash and cash equivalents, end of year	\$ 26	\$ 15	\$ 17	\$	\$ 58

For the year ended December 31, 2006

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ (97)	\$ 154	\$ 475	\$	\$ 532
Investing activities:					
Acquisition of property and equipment		(325)	(53)		(378)
Proceeds from disposal of property and equipment		17	58		75
Acquisition of companies	(26)				(26)
Other		6	(6)		
Net cash used in investing activities	(26)	(302)	(1)		(329)
Financing activities:					
ABS borrowings, net			(150)		(150)
Repayment of long-term debt	(45)				(45)
Treasury stock purchases	(20)				(20)
Proceeds from exercise of stock options	6				6
Intercompany advances / repayments	182	151	(333)		

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Net cash provided by (used in) financing activities	123	151	(483)	(209)
Net increase (decrease) in cash and cash equivalents		3	(9)	(6)
Cash and cash equivalents, beginning of year	20	18	44	82
Cash and cash equivalents, end of year	\$ 20	\$ 21	\$ 35	\$ 76

72

Table of Contents

For the year ended December 31, 2005

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by operating activities	\$ 52	\$ 242	\$ 193	\$ 11	\$ 498
Investing activities:					
Acquisition of property and equipment		(233)	(71)		(304)
Proceeds from disposal of property and equipment		35	13		48
Acquisition of companies	(821)	46	21		(754)
Investment in affiliate	(46)				(46)
Other		2	10		12
Net cash used in investing activities	(867)	(150)	(27)		(1,044)
Financing activities:					
ABS borrowings, net			375		375
Debt issuance costs	(4)				(4)
Issuance (repayment) of long-term debt	195	(5)			190
Proceeds from exercise of stock options	11				11
Treasury stock purchases	(50)				(50)
Intercompany advances / repayments	601	(76)	(514)	(11)	
Net cash provided by (used in) financing activities	753	(81)	(139)	(11)	522
Net increase (decrease) in cash and cash equivalents	(62)	11	27		(24)
Cash and cash equivalents, beginning of year	82	7	17		106
Cash and cash equivalents, end of year	\$ 20	\$ 18	\$ 44	\$	\$ 82

Table of Contents**Guarantees of the Senior Notes Due 2008**

In connection with the senior notes due 2008, that the Company assumed by virtue of the Roadway merger agreement, and in addition to the primary obligor, Roadway LLC, YRC Worldwide and its following 100% owned subsidiaries have issued guarantees in favor of the holders of the senior notes due 2008: Roadway Next Day Corporation, New Penn Motor Express, Inc., Roadway Express, Inc., Roadway Reverse Logistics, Inc. and Roadway Express International, Inc. Each of the guarantees is full and unconditional and joint and several.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information of YRC Worldwide and its subsidiaries as of December 31, 2007 and 2006 with respect to the financial position, and for the years ended December 31, 2007, 2006 and 2005 for results of operations and cash flows.

The primary obligor column presents the financial information of Roadway LLC. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the senior notes due 2008 including YRC Worldwide, the holding company. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$	\$ 45	\$ 13	\$	\$ 58
Intercompany advances receivable		(17)	17		
Accounts receivable, net		(38)	1,120	(8)	1,074
Prepaid expenses and other	(12)	102	156		246
Total current assets	(12)	92	1,306	(8)	1,378
Property and equipment		1,103	2,981		4,084
Less accumulated depreciation		(261)	(1,443)		(1,704)
Net property and equipment		842	1,538		2,380
Investment in subsidiaries	101	3,264	254	(3,619)	
Receivable from affiliate	186	(722)	536		
Goodwill and other assets	651	1,117	387	(850)	1,305
Total assets	\$ 926	\$ 4,593	\$ 4,021	\$ (4,477)	\$ 5,063
Intercompany advances payable	\$	\$ 78	\$ 127	\$ (205)	\$
Accounts payable		98	293	(3)	388
Wages, vacations and employees' benefits		181	245		426
Claims and insurance accruals		48	120		168
Other current and accrued liabilities	1	50	151		202
Asset backed securitization borrowings			180		180
Current maturities of long-term debt	229		3		232
Total current liabilities	230	455	1,119	(208)	1,596
Payable to affiliate		533	117	(650)	
Long-term debt, less current portion		555	267		822
Deferred income taxes, net	(3)	241	284		522
Pension and postretirement		180			180
Claims and other liabilities		86	245		331

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Commitments and contingencies					
Shareholders' equity	699	2,543	1,989	(3,619)	1,612
Total liabilities and shareholders' equity	\$ 926	\$ 4,593	\$ 4,021	\$ (4,477)	\$ 5,063

Table of Contents**December 31, 2006**

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$	\$ 38	\$ 38	\$	\$ 76
Intercompany advances receivable		(14)	14		
Accounts receivable, net		(20)	1,222	(11)	1,191
Prepaid expenses and other	(2)	83	143		224
Total current assets	(2)	87	1,417	(11)	1,491
Property and equipment		1,019	2,823		3,842
Less accumulated depreciation		(199)	(1,373)		(1,572)
Net property and equipment		820	1,450		2,270
Investment in subsidiaries		3,377	208	(3,585)	
Receivable from affiliate	155	(552)	397		
Goodwill and other assets	651	1,257	1,033	(850)	2,091
Total assets	\$ 804	\$ 4,989	\$ 4,505	\$ (4,446)	\$ 5,852
Intercompany advances payable	\$	\$ 87	\$ 122	\$ (209)	\$
Accounts payable		114	286	(2)	398
Wages, vacations and employees benefits		165	249		414
Claims and insurance accruals		22	168		190
Other current and accrued liabilities	2	54	78		134
Asset backed securitization borrowings			225		225
Total current liabilities	2	442	1,128	(211)	1,361
Payable to affiliate		549	101	(650)	
Long-term debt, less current portion	234	550	274		1,058
Deferred income taxes, net	(5)	234	280		509
Pension and postretirement		350			350
Claims and other liabilities		26	356		382
Commitments and contingencies					
Shareholders equity	573	2,838	2,366	(3,585)	2,192
Total liabilities and shareholders equity	\$ 804	\$ 4,989	\$ 4,505	\$ (4,446)	\$ 5,852

Condensed Consolidated Statements of Operations

For the year ended December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$	\$ 3,444	\$ 6,591	\$ (414)	\$ 9,621
Operating expenses:					
Salaries, wages and employees benefits		1,994	3,747		5,741
Operating expenses and supplies		687	1,550	(372)	1,865
Purchased transportation		350	783	(44)	1,089
Depreciation and amortization		76	180		256
Other operating expenses		150	287		437
Gains on property disposals, net		(8)	2		(6)
Reorganization and settlements		11	11		22
Impairment charges		136	646		782

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Total operating expenses		3,396	7,206	(416)	10,186
Operating income (loss)		48	(615)	2	(565)
Nonoperating (income) expenses:					
Interest expense	14	35	40		89
Other, net	(52)	168	(120)	2	(2)
Nonoperating (income) expenses, net	(38)	203	(80)	2	87
Income before income taxes	38	(155)	(535)		(652)
Income tax provision (benefit)	14	(38)	10		(14)
Net income (loss)	\$ 24	\$ (117)	\$ (545)	\$	\$ (638)

Table of Contents**For the year ended December 31, 2006**

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$	\$ 3,611	\$ 6,761	\$ (453)	\$ 9,919
Operating expenses:					
Salaries, wages and employees benefits		2,083	3,734	(81)	5,736
Operating expenses and supplies		667	1,458	(306)	1,819
Purchased transportation		377	748	(34)	1,091
Depreciation and amortization		89	185		274
Other operating expenses		156	280		436
Gains on property disposals, net		(6)	(2)		(8)
Reorganization and settlements		2	24		26
Total operating expenses		3,368	6,427	(421)	9,374
Operating income (loss)		243	334	(32)	545
Nonoperating (income) expenses:					
Interest expense	14	34	40		88
Other, net	(51)	124	(40)	(32)	1
Nonoperating (income) expenses, net	(37)	158		(32)	89
Income before income taxes	37	85	334		456
Income tax provision	14	53	112		179
Net income	\$ 23	\$ 32	\$ 222	\$	\$ 277

For the year ended December 31, 2005

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$	\$ 3,502	\$ 5,579	\$ (340)	\$ 8,741
Operating expenses:					
Salaries, wages and employees benefits		2,085	3,040	(14)	5,111
Operating expenses and supplies		632	1,088	(282)	1,438
Purchased transportation		341	663	(13)	991
Depreciation and amortization		84	167		251
Other operating expenses		141	265		406
Losses (gains) on property disposals, net		1	(6)		(5)
Reorganization and settlements		5	8		13
Total operating expenses		3,289	5,225	(309)	8,205
Operating income (loss)		213	354	(31)	536
Nonoperating (income) expenses:					
Interest expense	14	88	82	(121)	63
Other, net	(53)	(256)	(98)	408	1
Nonoperating (income) expenses, net	(39)	(168)	(16)	287	64

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Income (loss) before income taxes	39	381	370	(318)	472
Income tax provision	14	34	136		184
Net income (loss)	\$ 25	\$ 347	\$ 234	\$ (318)	\$ 288

Table of Contents

Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ 30	\$ (29)	\$ 392	\$	\$ 393
Investing activities:					
Acquisition of property and equipment		(110)	(284)		(394)
Proceeds from disposal of property and equipment		30	25		55
Other		(1)	(1)		(2)
Net cash used in investing activities		(81)	(260)		(341)
Financing activities:					
ABS borrowings, net			(45)		(45)
Issuance of long-term debt, net		5			5
Debt issuance costs		(1)			(1)
Treasury stock purchases		(35)			(35)
Proceeds from exercise of stock options		6			6
Intercompany advances / repayments	(30)	142	(112)		
Net cash provided by (used in) financing activities	(30)	117	(157)		(70)
Net increase (decrease) in cash and cash equivalents		7	(25)		(18)
Cash and cash equivalents, beginning of year		38	38		76
Cash and cash equivalents, end of year	\$	\$ 45	\$ 13	\$	\$ 58

For the year ended December 31, 2006

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ 23	\$ (13)	\$ 530	\$ (8)	\$ 532
Investing activities:					
Acquisition of property and equipment		(128)	(250)		(378)
Proceeds from disposal of property and equipment		23	52		75
Acquisition of companies		(26)			(26)
Other	4		(4)		
Net cash provided by (used in) investing activities	4	(131)	(202)		(329)
Financing activities:					
ABS borrowings, net			(150)		(150)
Repayment of long-term debt		(45)			(45)
Treasury stock purchases		(20)			(20)
Proceeds from exercise of stock options		6			6
Intercompany advances / repayments	(27)	207	(188)	8	

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Net cash provided by (used in) financing activities	(27)	148	(338)	8	(209)
Net increase (decrease) in cash and cash equivalents		4	(10)		(6)
Cash and cash equivalents, beginning of year		34	48		82
Cash and cash equivalents, end of year	\$	\$ 38	\$ 38	\$	\$ 76

77

Table of Contents

For the year ended December 31, 2005

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ 50	\$ 91	\$ 360	\$ (3)	\$ 498
Investing activities:					
Acquisition of property and equipment		(84)	(220)		(304)
Proceeds from disposal of property and equipment		16	32		48
Acquisition of companies		(819)	65		(754)
Investment in affiliate		(46)			(46)
Other			12		12
Net cash used in investing activities		(933)	(111)		(1,044)
Financing activities:					
ABS borrowings, net			375		375
Debt issuance costs		(4)			(4)
Issuance (repayment) of long-term debt		195	(5)		190
Proceeds from exercise of stock options		11			11
Treasury stock purchases		(50)			(50)
Intercompany advances / repayments	(50)	635	(588)	3	
Net cash provided by (used in) financing activities	(50)	787	(218)	3	522
Net increase (decrease) in cash and cash equivalents		(55)	31		(24)
Cash and cash equivalents, beginning of year		89	17		106
Cash and cash equivalents, end of year	\$	\$ 34	\$ 48	\$	\$ 82

Table of Contents**Guarantees of the Senior Notes Due 2009 and 2010**

In connection with the senior notes due 2009 and 2010 that YRC Worldwide assumed by virtue of its merger with USF, and in addition to the primary obligor, Regional Transportation (formerly USF Corporation), YRC Worldwide and its following 100% owned subsidiaries have issued guarantees in favor of the holders of the senior notes due 2009 and 2010: USF Sales Corporation, USF Holland Inc., USF Reddaway Inc., USF Glen Moore Inc., YRC Logistics Services (formerly Meridian IQ Services Inc.), and IMUA Handling Corporation. Each of the guarantees is full and unconditional and joint and several.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information of YRC Worldwide and its subsidiaries as of December 31, 2007 and 2006 with respect to the financial position and for the years ended December 31, 2007, 2006 and 2005 for results of operations and cash flows.

The Condensed Consolidating Statements of Operations and Condensed Consolidating Statement of Cash Flows for 2005 contain USF information from the date of acquisition (May 24) through December 31. The primary obligor column presents the financial information of Regional Transportation (formerly USF Corporation). The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the senior notes due 2009 and 2010 including YRC Worldwide, the holding company. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$	\$ 29	\$ 29	\$	\$ 58
Intercompany advances receivable		(11)	11		
Accounts receivable, net		7	1,084	(17)	1,074
Prepaid expenses and other	(5)	153	98		246
Total current assets	(5)	178	1,222	(17)	1,378
Property and equipment	2	914	3,168		4,084
Less accumulated depreciation	(2)	(165)	(1,537)		(1,704)
Net property and equipment		749	1,631		2,380
Investment in subsidiaries	218	3,279	9	(3,506)	
Receivable from affiliate	490	(1,183)	693		
Goodwill and other assets	160	373	1,122	(350)	1,305
Total assets	\$ 863	\$ 3,396	\$ 4,677	\$ (3,873)	\$ 5,063
Intercompany advances payable	\$ 65	\$ 119	\$ 16	\$ (200)	\$
Accounts payable	9	82	306	(9)	388
Wages, vacations and employees benefits	3	114	309		426
Claims and insurance accruals		41	127		168
Other current and accrued liabilities	23	37	150	(8)	202
Asset backed securitization borrowings			180		180
Current maturities of long-term debt			232		232
Total current liabilities	100	393	1,320	(217)	1,596
Payable to affiliate		(45)	195	(150)	

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Long-term debt, less current portion	260	555	7		822
Deferred income taxes, net	52	127	343		522
Pension and postretirement		180			180
Claims and other liabilities		85	246		331
Commitments and contingencies					
Shareholders' equity	451	2,101	2,566	(3,506)	1,612
Total liabilities and shareholders' equity	\$ 863	\$ 3,396	\$ 4,677	\$ (3,873)	\$ 5,063

Table of Contents**December 31, 2006**

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$	\$ 23	\$ 53	\$	\$ 76
Intercompany advances receivable		(10)	10		
Accounts receivable, net		1	1,192	(2)	1,191
Prepaid expenses and other	(17)	96	145		224
Total current assets	(17)	110	1,400	(2)	1,491
Property and equipment	2	836	3,004		3,842
Less accumulated depreciation	(1)	(115)	(1,456)		(1,572)
Net property and equipment	1	721	1,548		2,270
Investment in subsidiaries	247	3,373	6	(3,626)	
Receivable from affiliate	399	(714)	315		
Goodwill and other assets	809	380	1,252	(350)	2,091
Total assets	\$ 1,439	\$ 3,870	\$ 4,521	\$ (3,978)	\$ 5,852
Intercompany advances payable	\$	\$ 193	\$ 7	\$ (200)	\$
Accounts payable	3	97	300	(2)	398
Wages, vacations and employees benefits	(1)	105	310		414
Claims and insurance accruals		16	174		190
Other current and accrued liabilities	6	39	89		134
Asset backed securitization borrowings			225		225
Total current liabilities	8	450	1,105	(202)	1,361
Payable to affiliate		(29)	179	(150)	
Long-term debt, less current portion	265	550	243		1,058
Deferred income taxes, net	80	117	312		509
Pension and postretirement		350			350
Claims and other liabilities	1	45	336		382
Commitments and contingencies					
Shareholders equity	1,085	2,387	2,346	(3,626)	2,192
Total liabilities and shareholders equity	\$ 1,439	\$ 3,870	\$ 4,521	\$ (3,978)	\$ 5,852

Condensed Consolidating Statements of Operations

For the year ended December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 22	\$ 2,362	\$ 7,612	\$ (375)	\$ 9,621
Operating expenses:					
Salaries, wages and employees benefits	8	1,397	4,336		5,741
Operating expenses and supplies	5	654	1,554	(348)	1,865
Purchased transportation		122	996	(29)	1,089
Depreciation and amortization	8	67	181		256
Other operating expenses		121	316		437
Gains on property disposals, net		(1)	(5)		(6)
Reorganization and settlements	1	13	8		22
Impairment charges	646		136		782

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Total operating expenses	668	2,373	7,522	(377)	10,186
Operating income (loss)	(646)	(11)	90	2	(565)
Nonoperating (income) expenses:					
Interest expense	16	35	38		89
Other, net	(42)	124	(86)	2	(2)
Nonoperating (income) expenses, net	(26)	159	(48)	2	87
Income (loss) before income taxes	(620)	(170)	138		(652)
Income tax provision (benefit)	(17)	(54)	57		(14)
Net income (loss)	\$ (603)	\$ (116)	\$ 81	\$	\$ (638)

Table of Contents**For the year ended December 31, 2006**

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 22	\$ 2,440	\$ 7,913	\$ (456)	\$ 9,919
Operating expenses:					
Salaries, wages and employees benefits	8	1,381	4,428	(81)	5,736
Operating expenses and supplies	6	624	1,508	(319)	1,819
Purchased transportation		137	978	(24)	1,091
Depreciation and amortization	8	72	194		274
Other operating expenses		115	321		436
Gains on property disposals, net		(2)	(6)		(8)
Reorganization and settlements		1	25		26
Total operating expenses	22	2,328	7,448	(424)	9,374
Operating income (loss)		112	465	(32)	545
Nonoperating (income) expenses:					
Interest expense	15	34	39		88
Other, net	(24)	100	(43)	(32)	1
Nonoperating (income) expenses, net	(9)	134	(4)	(32)	89
Income (loss) before income taxes	9	(22)	469		456
Income tax provision	3	13	163		179
Net income (loss)	\$ 6	\$ (35)	\$ 306	\$	\$ 277

For the year ended December 31, 2005

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 51	\$ 1,523	\$ 7,575	\$ (408)	\$ 8,741
Operating expenses:					
Salaries, wages and employees benefits	8	871	4,273	(41)	5,111
Operating expenses and supplies	7	341	1,400	(310)	1,438
Purchased transportation		141	873	(23)	991
Depreciation and amortization	5	53	193		251
Other operating expenses	27	79	306	(6)	406
Losses (gains) on property disposals, net		1	(6)		(5)
Reorganization and settlements	2	11			13
Total operating expenses	49	1,497	7,039	(380)	8,205
Operating income (loss)	2	26	536	(28)	536
Nonoperating (income) expenses:					
Interest expense	9	43	88	(77)	63
Other, net	(20)	(321)	(21)	363	1
Nonoperating (income) expenses, net	(11)	(278)	67	286	64

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Income (loss) before income taxes	13	304	469	(314)	472
Income tax provision	2	5	177		184
Net income (loss)	\$ 11	\$ 299	\$ 292	\$ (314)	\$ 288

Table of Contents

Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ 36	\$ (200)	\$ 557	\$	\$ 393
Investing activities:					
Acquisition of property and equipment		(110)	(284)		(394)
Proceeds from disposal of property and equipment		5	50		55
Other		(1)	(1)		(2)
Net cash used in investing activities		(106)	(235)		(341)
Financing activities:					
ABS borrowings, net			(45)		(45)
Issuance of long-term debt, net		4	1		5
Debt issuance costs		(1)			(1)
Treasury stock purchases		(35)			(35)
Proceeds from exercise of stock options		6			6
Intercompany advances / repayments	(36)	338	(302)		
Net cash provided by (used in) financing activities	(36)	312	(346)		(70)
Net increase (decrease) in cash and cash equivalents		6	(24)		(18)
Cash and cash equivalents, beginning of year		23	53		76
Cash and cash equivalents, end of year	\$	\$ 29	\$ 29	\$	\$ 58

For the year ended December 31, 2006

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash (used in) provided by operating activities	\$ (71)	\$ 93	\$ 510	\$	\$ 532
Investing activities:					
Acquisition of property and equipment		(94)	(284)		(378)
Proceeds from disposal of property and equipment	1	30	44		75
Acquisition of companies		(26)			(26)
Net cash provided by (used in) investing activities	1	(90)	(240)		(329)
Financing activities:					
ABS borrowings, net			(150)		(150)
Repayment of long-term debt		(45)			(45)
Treasury stock purchases		(20)			(20)
Proceeds from exercise of stock options		6			6
Intercompany advances / repayments	70	37	(107)		
Net cash provided by (used in) financing activities	70	(22)	(257)		(209)

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Net increase (decrease) in cash and cash equivalents	(19)	13	(6)
Cash and cash equivalents, beginning of year	42	40	82
Cash and cash equivalents, end of year	\$ 23	\$ 53	\$ 76

82

Table of Contents

For the year ended December 31, 2005

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	\$ (38)	\$ 208	\$ 317	\$ 11	\$ 498
Investing activities:					
Acquisition of property and equipment		(89)	(215)		(304)
Proceeds from disposal of property and equipment	1	15	32		48
Acquisition of companies	43	(824)	27		(754)
Investment in affiliate		(46)			(46)
Other	2		10		12
Net cash provided by (used in) investing activities	46	(944)	(146)		(1,044)
Financing activities:					
ABS borrowings, net			375		375
Debt issuance costs		(4)			(4)
Issuance (repayment) of long-term debt		195	(5)		190
Proceeds from exercise of stock options		11			11
Treasury stock purchases		(50)			(50)
Intercompany advances / repayments	(8)	544	(525)	(11)	
Net cash provided by (used in) financing activities	(8)	696	(155)	(11)	522
Net increase (decrease) in cash and cash equivalents		(40)	16		(24)
Cash and cash equivalents, beginning of year		82	24		106
Cash and cash equivalents, end of year	\$	\$ 42	\$ 40	\$	\$ 82

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

YRC Worldwide Inc.:

We have audited the accompanying consolidated balance sheets of YRC Worldwide Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, cash flows, shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8 to the consolidated financial statements, on January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. As discussed in notes 1 and 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, and SFAS No. 123(R), *Share-Based Payment*, during the year ended December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Kansas City, Missouri
February 29, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

YRC Worldwide Inc.:

We have audited YRC Worldwide Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Kansas City, Missouri
February, 29, 2008

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our principal executive and principal financial officers evaluated our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective as of December 31, 2007.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining effective internal control over our financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our system of internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework that the Committee of Sponsoring Organizations of the Treadway Commission issued.

Based on its assessment using those criteria, our management concluded that, as of December 31, 2007, our system of internal control over financial reporting was effective.

KPMG LLP, the registered independent public accounting firm that audited our December 31, 2007 consolidated financial statements, has issued an attestation report on our system of internal control over financial reporting. The KPMG LLP attestation report is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

Table of Contents**PART III****Item 10. Directors and Executive Officers of the Registrant**

The information required by this item relating to our directors and nominees, and compliance with Section 16(a) of the Securities Act of 1934 is included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement related to the 2008 Annual Meeting of Shareholders and is incorporated herein by reference.

The following are our executive officers as of February 29, 2008:

Name	Age	Position(s) Held
William D. Zollars	60	Chairman of the Board, President and Chief Executive Officer of YRC Worldwide (since November 1999); President of Yellow Transportation (1996 - 1999); Senior Vice President of Ryder Integrated Logistics, Inc. (1994 - 1996).
Stephen L. Bruffett	44	Executive Vice President and Chief Financial Officer, YRC Worldwide (since September 2007); Senior Vice President - Sales and Marketing, YRC National Transportation (2007); Senior Vice President - Sales and Marketing, Yellow Transportation (2006 - 2007); Senior Vice President - Field Operations and Sales, Yellow Transportation (2005 - 2006); Senior Vice President - Corporate Development and Investor Relations, Yellow Roadway Corporation (2003 - 2005); Vice President and Treasurer, Yellow Corporation (2001 - 2003).
Daniel J. Churay	45	Executive Vice President, General Counsel and Secretary of YRC Worldwide (since September 2002); Senior Counsel, Fulbright & Jaworski L.L.P. (2002); Deputy General Counsel and Assistant Secretary of Baker Hughes Incorporated (1998 - 2002).
Michael J. Smid	52	President, YRC North American Transportation (since October 2007); President, YRC National Transportation (2007); President and Chief Executive Officer, Roadway Express (2005 - 2007); President and Chief Integration Officer, YRC Worldwide Enterprise Services (2004 - 2005); Executive Vice President and Chief Administrative Officer, Yellow Transportation (2000 - 2004).
James G. Kissinger	51	Executive Vice President - Human Resources, YRC Worldwide (since January 2008); Senior Vice President - Corporate Operations, Aircell (telecommunications) (2006 - 2007); Senior Vice President - Human Resources, Sprint Nextel Corporation (telecommunications) (1984 - 2006).
Paul F. Liljegren	53	Vice President, Contoller and Chief Accounting Officer of YRC Worldwide (since September 2005); Vice President, Risk and Assurance of YRC Worldwide (2004 - 2005); Corporate Treasurer of Butler Manufacturing Company (1998 - 2004); Vice President, Finance for a division of Butler Manufacturing Company (1991 - 1998).

We have adopted a written Code of Conduct that applies to all of our directors, officers and employees, including our chief executive officer, chief financial officer and chief accounting officer. It is available under "Board Committee Charters & Code of Conduct" on our website located at www.yrcw.com. We intend to disclose any amendments to, or waivers from, any provision of our Code of Conduct that applies to our chief executive officer, chief financial officer or chief accounting officer by posting such information on our website located at www.yrcw.com.

Table of Contents

Item 11. Executive Compensation

The information that this item requires is included under the captions Compensation Committee Interlocks and Insider Participation, Director Compensation, Compensation Discussion and Analysis, Compensation Committee Report and Executive Compensation in our Proxy Statement related to the 2008 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information that this item requires is included under the captions Security Ownership of Management, Security Ownership of Certain Beneficial Owners and Equity Compensation Plan Information in our Proxy Statement related to the 2008 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information that this item requires is included under the captions Structure and Functioning of the Board and Certain Relationships and Related Party Transactions in our Proxy Statement related to the 2008 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information that this item requires is included under the caption Audit/Ethics Committee Report in our Proxy Statement related to the 2008 Annual Meeting of Stockholders and is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The consolidated financial statements of the Company included under Item 8 Financial Statements and Supplementary Data.

(a)(2) Financial Statement Schedules

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule on page 95.

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2007, 2006 and 2005 on page 96.

(a)(3) Exhibits

- 3.1.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K for the year ended December 31, 2002, File No. 000-12255).
- 3.1.2 Certificate of Amendment to the Certificate of Incorporation of the Company changing the name of the Company to Yellow Roadway Corporation (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-8, filed on December 23, 2003, File No. 333-111499).
- 3.1.3 Certificate of Ownership and Merger, merging YRC Worldwide Inc. into Yellow Roadway Corporation, effecting a name change to YRC Worldwide Inc. (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on January 3, 2006, File No. 000-12255).
- 3.2 Bylaws of the Company, as amended through October 25, 2007 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K, filed on October 26, 2007, File No. 000-12255).
- 4.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to this Annual Report on Form 10-K), as amended by Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to this Annual Report on Form 10-K), and Certificate of Ownership and Merger (incorporated by reference to Exhibit 3.3 to this Annual Report on Form 10-K).
- 4.2 Bylaws of the Company (incorporated by reference to Exhibit 3.4 to this Annual Report on Form 10-K).
- 4.3.1 Indenture (including form of note) dated November 30, 2001 among Roadway Corporation (predecessor in interest to Roadway LLC), certain subsidiary guarantors and SunTrust Bank, as trustee, relating to Roadway's 8¹/₄% Senior Notes due December 1, 2008 (incorporated by reference to Exhibit 4.9 to Registration Statement on Form S-8, filed on December 23, 2003, File No. 333-111499).
- 4.3.2 Supplemental Indenture, dated as of December 11, 2003, among Roadway LLC, as successor obligor, YRC Worldwide, Inc., as a Guarantor, and SunTrust Bank, as Trustee, supplementing the Indenture, dated as of November 30, 2001 relating to the Roadway Corporation 8¹/₄% Senior Notes due December 1, 2008 (incorporated by reference to Exhibit 4.6 to the Annual Report on Form 10-K for the year ended December 31, 2003, File No. 000-1225).
- 4.4.1 Indenture, dated as of May 5, 1999, among USFreightways Corporation, the Guarantors named therein and NBD Bank, as trustee (incorporated by reference to Exhibit 4.11 to Registration Statement on Form S-4, filed on June 21, 2005, File No. 333-126006).
- 4.4.2 Form of 6¹/₂% Guaranteed Note due May 1, 2009 issued by USFreightways Corporation (incorporated by reference to Exhibit 4.12 to Registration Statement on Form S-4, filed on June 21, 2005, File No. 333-26006).
- 4.4.3 Form of 8¹/₂% Guaranteed Note due April 15, 2010 issued by USFreightways Corporation (incorporated by reference to Exhibit 4.13 to Registration Statement on Form S-4, filed on June 21, 2005, File No. 333-26006).

Table of Contents

- 4.4.4 Supplemental Indenture, dated as of June 27, 2005, among Yellow Roadway Corporation as New Guarantor, USF Corporation, the Existing Guarantor Subsidiaries under the indenture and J.P. Morgan Trust Company, National Association as Trustee, supplementing the Indenture, dated as of May 5, 1999 (as supplemented and in effect as of the date of the Supplemental Indenture), relating to the USF Corporation (formerly USFreightways Corporation) 6 1/2% Guaranteed Notes due May 1, 2009 and USF Corporation (formerly USFreightways Corporation) 8 1/2% Guaranteed Notes due April 15, 2010 (incorporated by reference to Exhibit 4.6 to the Annual Report on Form 10-K for the year ended December 31, 2005, File No. 000-1225).
- 4.5 Indenture (including form of note) dated August 8, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 5.0% Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-4, filed on August 19, 2003, File No. 333-108081).
- 4.6 Indenture (including form of note) dated November 25, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 3.375% Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.7 to Registration Statement on Form S-8, filed on December 23, 2003, File No. 333-111499).
- 4.7 Indenture (including form of note) dated December 31, 2004, among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 5.0% Net Share Settled Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.7 to Amendment No. 1 to Registration Statement on Form S-4/A, filed on November 30, 2004, File No. 333-119990).
- 4.8 Indenture (including form of note) dated December 31, 2004, among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 3.375% Net Share Settled Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registration Statement on Form S-4/A, filed on November 30, 2004, File No. 333-119990).
- (10) Material Contracts
- 10.1 Credit Agreement, dated as of August 17, 2007, among the Company; the Canadian Borrowers and UK Borrowers party thereto; the Lenders party thereto; Bank of America, N.A. and SunTrust Bank, as Syndication Agents; U.S. Bank National Association, Wachovia Bank, N.A. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch, as Documentation Agents; JP Morgan Chase Bank, National Association, Toronto Branch, as Canadian Agent; J.P. Morgan Europe Limited, as UK Agent; and JPMorgan Chase Bank, National Association, as Administrative Agent. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on August 22, 2007, File No. 000-12255).
- 10.2.1 Second Amended and Restated Receivables Purchase Agreement, dated as of May 24, 2005, among Yellow Roadway Receivables Funding Corporation, as Seller; Falcon Asset Securitization Corporation, Blue Ridge Asset Funding Corporation, Three Pillars Funding LLC and Amsterdam Funding Corporation, as Conduits; various financial institutions party to the Agreement, as Committed Purchasers; USF Assurance Co. Ltd., individually and as an agent for itself as an uncommitted purchaser; Wachovia Bank, National Association, as Blue Ridge Agent and LC Issuer, SunTrust Capital Markets, Inc. as Three Pillars Agent; ABN Amro Bank N.V., as Amsterdam Agent; and JPMorgan Chase Bank, N.A., as Falcon Agent and Administrative Agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 26, 2005, File No. 000-12255).

Table of Contents

- 10.2.2 Omnibus Amendment No. 1 [Amendment No. 1 to Amended and Restated Receivables Sale Agreement and Amendment No. 1 to Second Amended and Restated Receivables Purchase Agreement], as of May 19, 2006, among Yellow Transportation, Inc., Roadway Express, Inc., USF Reddaway Inc. and USF Holland Inc., as Originators; Yellow Roadway Receivables Funding Corporation, as Seller; JPMorgan Chase Bank, N.A., SunTrust Bank, Wachovia Bank, National Association, and ABN AMRO Bank, N.V., as Committed Purchaser, Falcon Asset Securitization Corporation, Three Pillars Funding LLC, Variable Funding Capital Company LLC (as assignee of Blue Ridge Asset Funding Corporation) and Amsterdam Funding Corporation, as Conduits; YRC Assurance Co. Ltd., as Co-Agent; Wachovia Bank, National Association, as LC Issuer; SunTrust Capital Markets, Inc., Wachovia Bank, National Association, ABN AMRO Bank, N.A., and JPMorgan Chase Bank, N.A., as Co-Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 22, 2006, File No. 000-12255).
- 10.2.3 Omnibus Agreement No. 2 [Amendment No. 2 to Amended and Restated Receivables Sale Agreement and Amendment No. 2 to Second Amended and Restated Receivables Purchase Agreement], as of May 18, 2007, among Yellow Transportation, Inc., Roadway Express, Inc., USF Reddaway Inc. and USF Holland Inc., as Originators; Yellow Roadway Receivables Funding Corporation, as Seller; JPMorgan Chase Bank, N.A., SunTrust Bank, Wachovia Bank, National Association and ABN AMRO Bank, N.V., as Committed Purchasers; Falcon Asset Securitization Company LLC (f/k/a Falcon Asset Securitization Corporation), Three Pillars Funding LLC, Variable Funding Capital Company LLC (as assignee of Blue Ridge Asset Funding Corporation) and Amsterdam Funding Corporation, as Conduits; YRC Assurance Co. Ltd., as Co-Agent; Wachovia Bank, National Association, as LC Issuer; SunTrust Capital Markets, Inc., Wachovia Bank, National Association, ABN AMRO Bank, N.A., and JPMorgan Chase Bank, N.A., as Co-Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on May 23, 2007, File No. 000-12255).
- 10.2.4 Omnibus Amendment No. 3 [Amendment No. 3 to Amended and Restated Receivables Sale Agreement and Amendment No. 3 to Second Amended and Restated Receivables Purchase Agreement], dated as of August 17, 2007, among Yellow Transportation, Inc., Roadway Express, Inc., USF Reddaway Inc. and USF Holland Inc., as Originators; Yellow Roadway Receivables Funding Corporation, as Seller; JPMorgan Chase Bank, N.A., SunTrust Bank, Wachovia Bank, National Association and ABN AMRO Bank, N.V. as Committed Purchasers; Falcon Asset Securitization Company LLC (f/k/a Falcon Asset Securitization Corporation), Three Pillars Funding LLC, Variable Funding Capital Company LLC (as assignee of Blue Ridge Asset Funding Corporation) and Amsterdam Funding Corporation, as Conduits; YRC Assurance Co. Ltd., as Co-Agent; Wachovia Bank, National Association, as LC Issuer; SunTrust Robinson Humphrey, Inc. (f/k/a SunTrust Capital Markets, Inc.), Wachovia Bank, National Association, ABN AMRO Bank, N.A., and JPMorgan Chase Bank, N.A., as CO-Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to Current Report filed on Form 8-K, filed on August 22, 2007, File No. 000-12255).
- 10.2.5 Amendment No. 4 to Second Amended and Restated Receivables Purchase Agreement, dated as of December 7, 2007, among Yellow Roadway Receivables Funding Corporation, as Seller, JPMorgan Chase Bank, N.A., SunTrust Bank, Wachovia Bank, National Association and ABN AMRO Bank, N.V., as Committed Purchasers; Falcon Asset Securitization Company LLC (f/k/a Falcon Asset Securitization Corporation), Three Pillars Funding LLC, Variable Funding Capital Company LLC (as assignee of Blue Ridge Asset Funding Corporation) and Amsterdam Funding Corporation, as Conduits; YRC Assurance Co. Ltd., as CO-Agent; Wachovia Bank, National Association, as LC Issuer; SunTrust Robinson Humphrey, Inc. (f/k/a SunTrust Capital Markets, Inc.), Wachovia Bank, National Association, ABN AMRO Bank, N.A., and JPMorgan Chase Bank, N.A., as Co-Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on December 10, 2007, File No. 000-12255).
- 10.3 National Master Freight Agreement, effective April 1, 2008, among the International Brotherhood of Teamsters, Yellow Transportation, Inc., Roadway Express, Inc., USF Holland Inc. and New Penn Motor Express, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed February 11, 2008, File No. 000-12255).

Table of Contents

(10) Management Contracts, Compensatory Plans and Arrangements

- 10.4.1 YRC Worldwide Inc. Director Compensation Plan (incorporated by reference to Exhibit 10.2 to current Report on Form 8-K, filed on July 25, 2005, File No. 000-12255).
- 10.4.2 Form of Director Share Unit Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on July 25, 2005, File No. 000-12255).
- 10.5 Employment Agreement dated January 25, 2006 by and between YRC Worldwide Inc. and William D. Zollars (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on January 26, 2006, File No. 000-12255).
- 10.6 Employment Agreement, dated as of October 10, 2003, by and between Roadway LLC and James D. Staley (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Registration Statement on Form S-4/A, filed on October 17, 2003, File No. 333-108081).
- 10.7 Supplemental Retirement Income Agreement dated March 1, 2007, between YRC Worldwide Inc. and Donald G. Barger, Jr. (incorporated by reference to Exhibit 10.16 to Annual Report on Form 10-K for the year ended December 31, 2007, File No. 000-12255)
- 10.8 Separation Agreement and Complete Release, dated January 11, 2007, by James L. Welch, YRC Worldwide Inc. and Yellow Transportation, Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on January 18, 2007, File No. 000-12255).
- 10.9 Form of Indemnification Agreement between YRC Worldwide Inc. and each of its directors and executive officers (incorporated by reference to Exhibit 10.5 to Current Report on Form 8-K, filed on March 15, 2007, File No. 000-12255).
- 10.10* Form of Executive Severance Agreement between YRC Worldwide Inc. and each of the following executive officers: William D. Zollars, Stephen L. Bruffett, Michael J. Smid, Daniel J. Churay and James G. Kissinger.
- 10.11 YRC Worldwide Inc. Executive Severance Policy (incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K, filed on July 25, 2006, File No. 000-12255).
- 10.12 Yellow Corporation 1996 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.13 Yellow Corporation 1997 Stock Option Plan (incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2004, Reg. No. 000-12255).
- 10.14 Yellow Corporation 1999 Stock Option Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8, filed on November 9, 2000, File No. 333-49620).
- 10.15 Yellow Corporation 2002 Stock Option and Share Award Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8, filed on May 15, 2002, File No. 333-88268).
- 10.16 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.8 to Annual Report on Form 10-K for the year ended December 31, 2002, File No. 000-12255).
- 10.17 Yellow Roadway Corporation 2004 Long-Term Incentive and Equity Award Plan (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed on March 15, 2007, File No. 000-12255).
- 10.18* Form of Share Unit Agreement.
- 10.19* YRC Worldwide Inc. Long-Term Incentive Plan.
- 10.20 YRC Worldwide Inc. Annual Incentive Bonus Program (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on May 23, 2007, File No. 000-12255).
- 10.21 YRC Worldwide Inc. Supplemental Executive Pension Plan (Effective January 1, 2005) (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on July 25, 2006, File No. 000-12255).
- 10.22 YRC Worldwide Inc. Defined Contribution Supplemental Executive Retirement Plan (Effective January 1, 2005) (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on July 25, 2006, File No. 000-12255).
- 10.23 YRC Worldwide Inc. Transferred Executives Supplemental Retirement Plan (Effective January 1, 2006) (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K, filed on July 25, 2006, File No. 000-12255).
- 10.24.1 Roadway LLC Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.27 to Annual Report on Form 10-K for the year ended December 31, 2003, File No. 000-12255).

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10.24.2 Amendment No. 1 to Roadway LLC Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.23 to Annual Report on Form 10-K for the year ended December 31, 2005, File No. 000-12255).

Table of Contents

10.24.3*	Amendment No. 2 to Roadway LLC Pension Plan, as amended and restated as of January 1, 2004.
10.24.4*	Amendment No. 3 to Roadway LLC Pension Plan, as amended and restated as of January 1, 2004.
10.25.1	Yellow Corporation Pension Plan, amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.28 to Annual Report on Form 10-K for the year ended December 31, 2003, File No. 000-12255).
10.25.2	Amendment No. 1 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, File No. 000-12255).
10.25.3	Amendment No. 2 to Yellow Corporation Pension Plan, as amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.26 to Annual Report on Form 10-K for the year ended December 31, 2005, File No. 000-12255).
21.1*	Subsidiaries of the Company
23.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm
31.1*	Certification of William D. Zollars pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Stephen L. Bruffett pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification William D. Zollars pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Stephen L. Bruffett pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates documents filed herewith.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

YRC Worldwide Inc.:

Under date of February 29, 2008 we reported on the consolidated balance sheets of YRC Worldwide Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, cash flows, shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2007, which are included in this annual report on Form 10-K of YRC Worldwide Inc. for the fiscal year ended December 31, 2007. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule of valuation and qualifying accounts (Schedule II). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 8 to the consolidated financial statements, on January 1, 2007 the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. As discussed in notes 1 and 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and SFAS No. 123(R), *Share-Based Payment*, during the year ended December 31, 2006.

/s/ KPMG LLP

Kansas City, Missouri
February 29, 2008

Table of Contents

Schedule II

YRC Worldwide Inc. and Subsidiaries

Valuation and Qualifying Accounts

For the Years Ended December 31, 2007, 2006 and 2005

COL. A	COL. B	COL. C Additions		COL. D	COL. E
Description	Balance, Beginning Of Year	-1- Charged To Costs/ Expenses	-2- Charged To Other Accounts	Deductions (a)	Balance, End Of Year
	(in millions)				
<u>Year ended December 31, 2007:</u>					
Deducted from asset account -					
Allowance for uncollectible accounts	\$ 35.7	\$ 31.5	\$	\$ (32.3)	\$ 34.9
Added to liability account -					
Claims and insurance accruals	\$ 504.4	\$ 297.8	\$	\$ (323.9)	\$ 478.3
<u>Year ended December 31, 2006:</u>					
Deducted from asset account -					
Allowance for uncollectible accounts	\$ 32.0	\$ 39.2	\$	\$ (35.5)	\$ 35.7
Added to liability account -					
Claims and insurance accruals	\$ 499.9	\$ 344.8	\$ 7.5	\$ (347.8)	\$ 504.4
<u>Year ended December 31, 2005 ^(b):</u>					
Deducted from asset account -					
Allowance for uncollectible accounts	\$ 22.4	\$ 21.8	\$ 11.8 (c)	\$ (24.0)	\$ 32.0
Added to liability account -					
Claims and insurance accruals	\$ 320.8	\$ 297.2	\$ 143.6 (c)	\$ (261.7)	\$ 499.9

(a) Regarding the allowance for uncollectible accounts, amounts primarily relate to uncollectible accounts written off, net of recoveries. For the claims and insurance accruals, amounts primarily relate to payments of claims and insurance.

(b) 2005 balances include the results of the operating companies of USF from the date of acquisition (May 24) through December 31, 2005.

(c) These amounts primarily represent the beginning balances for USF as of May 24, 2005 and adjustments thereto.

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YRC Worldwide Inc.

BY: /s/ William D. Zollars
William D. Zollars
Chairman of the Board of Directors, President

& Chief Executive Officer

February 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ William D. Zollars William D. Zollars	Chairman of the Board of Directors, President and Chief Executive Officer	February 29, 2008
/s/ Stephen L. Bruffett Stephen L. Bruffett	Executive Vice President & Chief Financial Officer	February 29, 2008
/s/ Paul F. Liljegren Paul F. Liljegren	Vice President, Controller & Chief Accounting Officer	February 29, 2008
/s/ Michael T. Byrnes Michael T. Byrnes	Director	February 29, 2008
/s/ Cassandra C. Carr Cassandra C. Carr	Director	February 29, 2008
/s/ Howard M. Dean Howard M. Dean	Director	February 29, 2008
/s/ Dennis E. Foster Dennis E. Foster	Director	February 29, 2008
/s/ John C. McKelvey John C. McKelvey	Director	February 29, 2008
/s/ Phillip J. Meek Phillip J. Meek	Director	February 29, 2008
/s/ Mark A. Schulz Mark A. Schulz	Director	February 29, 2008
/s/ William L. Trubeck William L. Trubeck	Director	February 29, 2008
/s/ Carl W. Vogt	Director	February 29, 2008

Carl W. Vogt