Lloyds Banking Group plc
Form 6-K
August 23, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

August 23, 2010

Lloyds Banking Group plc

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United Kingdom
011-44-207-626-1500

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F
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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):___

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No X

If "Yes" is marked, indicate below the file number assigned to
the registrant in connection with Rule 12g3-2(b): 82-

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-167844) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

EXPLANATORY NOTE

This Report on Form 6-K contains the updated risk factors, business description and details of recent developments disclosure relating to Lloyds Banking Group plc and is being incorporated by reference into the Registration Statements with File Nos. 333-167844.

RISK FACTORS

The Issuers believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Company nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuers believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme in relation to the Group are also described below.

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

1 GOVERNMENT RELATED RISKS

1.1 The Commissioners of Her Majesty's Treasury ("HM Treasury") is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.

HM Treasury holds approximately 40.6 per cent. of the ordinary share capital of the Company. This follows a dilution in February 2010 associated with the two exchange offers announced by the Group on 3 November 2009 (the "Exchange Offers") and further issues of ordinary shares. In the longer term, further dilution of the HM Treasury shareholding is possible through the potential conversion of the enhanced capital notes (the "Enhanced Capital Notes" or "ECNs"), into ordinary shares pursuant to their terms. It is not possible to calculate precisely the total dilutive effect any potential conversion of ECNs may have on HM Treasury's ownership interest in the Company but HM Treasury is expected to remain a significant shareholder in the Company.

In the longer term, it may become necessary for the Group to raise further capital or seek the support of the UK Government. Any such capital raising or support from the UK Government could result in an increase in HM Treasury's shareholding in the Company.

No formal "relationship agreement" has been concluded between the Group and the UK Government in respect of its shareholding in the Company and no specific measures are in place to limit the level of control which may be exercised by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments Limited ("UKFI") published on 13 July 2009. The

framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest 'on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined herein) (including with respect to individual lending or remuneration decisions)'. This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and 'will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets). Nevertheless, there is a risk that HM Treasury might seek to exert influence over the Group, and may disagree with the commercial decisions of the Group, including over such matters as the implementation of synergies, commercial and consumer lending policies and management of the Group's assets and/or business. There is also a risk that a change in Government priorities could result in the framework agreement in place being replaced leading to interference in the operations of the Group, although there have been no indications that the Government intends to change the existing operating arrangements.

There is also a risk that, through its interests in the Company, the UK Government and HM Treasury may be able to influence the Group in other ways that would have a material adverse effect on the Group's business, including among other things, the election of directors, the appointment of senior management at the Company, staff remuneration policies, lending policies and commitments, management of the Group's business including, in particular, management of the Group's assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares. Shareholders may disagree as to whether an action opposed or supported by HM Treasury is in the best interests of the Group generally. Furthermore, HM Treasury also has interests in other UK financial institutions, as well as an interest in the health of the UK banking industry and other industries generally, and those interests may not always be aligned with the commercial interests of the Group or its shareholders.

1.2 The Group is subject to European state aid obligations following the approval of its restructuring plan by the European Commission on 18 November 2009. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group. Moreover, should the Group require additional state aid in the future, further restructuring measures could be required and these may be materially adverse to the interests of the Group.

As a result of HM Treasury's investment in the Company in the context of the placing and open offer in November 2008, the Group has been required to cooperate with HM Treasury to submit a restructuring plan to the European Commission setting out the Group's plans to restructure and return to a position of viability On 4 August 2010, the Group completed the sale of a portfolio of private equity investments in its Bank of Scotland Integrated Finance business to a new joint venture. Lloyds Banking Group has retained an interest in the private equity investments though a holding of approximately 30 per cent. in the joint venture vehicle. The sale valued the portfolio at a small premium to the current book value and is not expected to have a material impact on the Group's accounts.in which it no longer relies on state aid, including the aid received pursuant to its participation in HM Treasury's credit guarantee scheme (the "Credit Guarantee Scheme") which was announced on 8 October 2008.

On 18 November 2009 the European Commission, through its College of Commissioners, approved the Group's restructuring plan. The principal elements of the plan address competition distortions from all elements of state aid that the Group has received, including HM Treasury's participation in the placing and compensatory open offer in June 2009 and the rights issue in November 2009 (the "Rights Issue"), as well as any commercial benefit received by the Group following its announcement in March 2009 of the intention it held at that time to participate in the Government Asset Protection Scheme ("GAPS"). The approval also covers the Group's ongoing participation in HM Treasury's Credit Guarantee Scheme at current levels up to June 2010. The Company has agreed with HM Treasury in the deed of withdrawal relating to the Company's withdrawal from its proposed participation in GAPS (the "GAPS Withdrawal Deed") that it will comply with the terms of the European Commission's decision.

The Group will also be subject to a variety of risks as a result of implementing the restructuring plan. There is no assurance that the price that the Group receives for any assets sold pursuant to the restructuring plan will be at a level the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell such assets in order to implement a state aid restructuring plan or if such sale were not subject to the restrictions contained in the terms thereof. In particular, should the Group fail to complete the disposal of the retail banking business that the Group is required to divest within four years, a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). In implementing the plan, the Group will lose existing customers, deposits and other assets (both directly through the sale and potentially through damage to the rest of the Group's business arising from implementing the restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Such implementation may also result in disruption to the retained business, impacting on customers and separation costs which could potentially be substantial.

The effect of implementing the approved restructuring plan may be the emergence of one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's competitors in that market. There can be no assurance that the Group will be able to continue to compete as effectively (whether against existing or new or strengthened competitors) and maintain or improve its revenues and margins in the resulting competitive environment, which could adversely affect the Group's results of operations and financial condition and its business generally. If any or all of the risks described in this paragraph, or any other currently unforeseen risks, materialise, there could be a negative impact, which could be material, on the Group's business, operations and competitive position.

Should the Group require any further state aid that was not covered in the European Commission's approval decision of 18 November 2009, this may require the Group to commit to further restructuring measures. Any such measures could be materially adverse to the interests of the Group.

1.3 The Company has agreed to certain undertakings with HM Treasury in relation to the operation of its business in connection with the Company's placing and open offers in

November 2008 and May 2009, in connection with the Group's participation in the Credit Guarantee Scheme and as part of its formerly proposed participation in GAPS. The implications of some of these undertakings remain unclear and they could have a material adverse effect on the Group's results of operations, financial condition and prospects. The Group also agreed to certain other commitments in the GAPS Withdrawal Deed.

In connection with HM Treasury's participation in the placing and open offers in November 2008 and May 2009, the Group's participation in the Credit Guarantee Scheme and its possible participation in GAPS, the Company provided certain undertakings aimed at ensuring that the acquisition by HM Treasury of the Company's shares and the participation of the Group in the UK Government funding scheme as part of its support for the banking industry is consistent with the European state aid clearance. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is the Group's understanding that the undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings include (i) supporting UK Government policy in relation to mortgage lending and lending to businesses through to the end of February 2011, (ii) regulating the remuneration of management and other employees and (iii) regulating the rate of growth of the Group's balance sheet. There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Group.

On 6 March 2009, in connection with the Group's then proposed participation in GAPS, the Company entered into a commitment to increase lending by £14 billion in the 12 months commencing 1 March 2009 to support UK businesses (£11 billion) and homeowners (£3 billion). As part of withdrawing from GAPS, the Group has agreed in the GAPS Withdrawal Deed to reaffirm its overall lending commitments and to maintain in the 12 months commencing 1 March 2010 similar levels of lending as in the 12 months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with the UK Government to reflect circumstances at the start of the 12 month period commencing 1 March 2010.

On 23 March 2010, the Company entered into a commitment whereby it agreed to provide gross new lending to support UK businesses amounting to £44 billion and to support homeowners amounting to £23.1 billion, in respect of the year commencing 1 March 2010, in line with these requirements. The additional lending in 2009 and 2010 is subject to the Group's prevailing commercial terms and conditions (including appropriate risk-adjusted pricing and satisfaction of risk acceptance criteria) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria. The business lending commitment in 2010 is in addition subject to the availability of sufficient demand from customers who meet the above criteria and through the best endeavours of the Company, the availability of the capital, liquidity and funding position on acceptable terms necessary to support the level of lending that the Company has committed to during the 2010 commitment period.

This commitment could, however, limit the operational flexibility of the Group.

1.4 Future legislative and regulatory changes could force the Group to comply with certain operational restrictions, take steps to raise further capital, or divest assets.

The Financial Services Act 2010 (the "Act") Act received Royal Assent on 8 April 2010. The Act establishes a new consumer financial education body, amends the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA powers to make rules on remuneration arrangements, short selling, living wills, consumer redress schemes, and extends its enforcement powers. In addition, the UK Government has announced plans to give the Bank of England macro- and micro-prudential supervisory powers over UK regulated banks and to create a new Customer Protection and Markets Authority (CPMA) to take over the FSA's conduct of business supervisory role, together with certain other duties from the FSA and other bodies. The Act and the Bank of England's proposed new supervisory powers could have significant ramifications for the FSA's approach to regulating the Group, particularly regarding the setting of capital and liquidity requirements and also conduct of business regulations. In addition, since the general election in May 2010, the UK government has announced that from 2012, the responsibilities of the FSA will be re-allocated among a number of existing and newly created regulatory bodies. Responsibility for prudential regulation is to be removed to the Bank of England, with a new Prudential Regulatory Authority taking responsibility for the day-to-day oversight of micro-prudential supervision. An Economic Crime agency will be established to take responsibility for matters of 'serious' economic crime while a Consumer Protection and Markets Authority is to be established to oversee the conduct of financial services firms and supervise markets. A Financial Policy Committee will take responsibility for the future stability of financial markets at a high level by aiming to prevent credit and asset bubbles. These changes will have a significant impact on the way in which the Group is supervised and are also likely to lead to a number of changes to the financial services rules and regulations with which the Group is required to comply.

In December 2009, The Basel Committee on Banking Supervision put forward proposals for a capital and liquidity reform package (Basel III) which may result in some fundamental changes to regulatory capital and liquidity standards at a European level. Proposals at this stage include changes to the definition of 'capital', new definitions for the calculation of counterparty credit risk and leverage ratios, additional capital buffers and development of a global liquidity standard. Details of the package are due to be finalised by the end of 2010 with implementation required in phases dating from 2012 to 2018. The proposals will present a number of challenges to the Group in reviewing its existing capital and liquidity arrangements and could have an impact on the Group's capital and liquidity calculations and funding requirements.

The UK government has announced that a bank levy will be imposed on large UK banks and foreign banks operating in the UK from 1 January 2011. The government has also established an Independent Commission on Banking ("ICB") to report in 2011. The ICB has been tasked with addressing four related issues:

- Reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function;

- Mitigating moral hazard in the banking system;

- Reducing both the likelihood and impact of firm failure; and

- Promoting competition in both retail and investment banking with a view to

ensuring that the needs of banks' customers and clients are efficiently served, in particular considering the extent to which large banks gain competitive advantage from being perceived as too big to fail.

In addition the Treasury Select Committee has launched inquiries into a new approach to financial regulation and separately competition in the banking industry. Both these reviews could give rise to legal or regulatory changes. There is a risk that such further legislation or regulation developed over time could force the Group to divest core assets, withdraw from or not engage in some activities, and/or increase its capital or liquidity requirements. Such measures could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Amendments to a number of EU directives are being considered, including the Distance Marketing Directive, Markets in Financial Instruments Directive; Capital Requirements Directive, E-Money Directive, Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Financial Groups Directive. Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Group's costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these consequences could have a material adverse effect on the Group's operating results, financial condition and prospects.

A number of other changes in regulation will come into effect in the short term that will have an impact on the Group including implementation of new reverse stress testing requirements, the delivery deadline of 31 December 2010 for the Single Customer View implementation and proposed changes to bank remuneration rules at EU level. The Group may also be subject to increased direct supervisory influence at an EU level via the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions. Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR) as new EU Supervisory Authorities. From 2011 these bodies will become new EU Supervisory Authorities and will be known as the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority respectively

The Competition Commission, the FSA and the Office of Fair Trading ("OFT") have recently carried out, or are currently conducting, a number of industry wide inquiries. Also, in the UK and overseas the Group is subject to legal and regulatory proceedings, challenges and investigations (which may include class action lawsuits) and other complaints (including to the Financial Ombudsman Service). The outcome of any investigation, proceeding or complaint is inherently uncertain.

A number of changes in regulation will come into effect in the short term that will have an impact on the Group including implementation of new reverse stress testing requirements, the delivery deadline of 31 December 2010 for the Single Customer View implementation and proposed changes to bank remuneration rules at EU level. The Group may also be subject to increased supervisory influence at an EU level via the Committee of European Banking Supervisors, the Committee of European Insurance and Occupational Pensions Supervisors and the Committee of European Securities Regulators. From 2011 these bodies will become new EU Supervisory Authorities - the European Banking Authority, the

European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority respectively.

The Group is currently assessing the impacts of these regulatory developments, and will participate in the consultation and calibration processes to be undertaken by the various regulatory bodies during 2010. The Group continues to work closely with the Tripartite Authorities and industry associations to ensure that it is able to identify and respond to regulatory changes and mitigate against any potential risks to the Group and its stakeholders.

There is a risk that the further regulation or legislation that may be developed over time to implement these or new proposals could force the Group to divest core assets, withdraw from or not engage in some activities, and/or increase its capital. Such regulations or legislation, taken with the more regular and detailed reporting obligations which are expected to accompany regulatory reform, the development and maintenance of a wind down plan, and the move to pre-funding of the deposit protection scheme in the UK, would result in additional costs for the Group, and such costs could be material.

Such measures could have a material adverse effect on the Group's results of operations, financial condition and prospects.

On 5 October 2009, the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices. Procedures to comply with the FSA's liquidity proposals are already incorporated within the Group's liquidity funding plans. These will result in more stringent requirements, which may lead to additional costs for the Group. See "Risk factors – Financial soundness related risks – The Group's businesses are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale money markets continues to be limited or becomes more limited. The Group continues to be reliant on various government liquidity schemes and will face refinancing risk as transactions under these schemes mature" for a fuller discussion of liquidity risks affecting the Group.

2 ACQUISITION RISKS

2.1 The Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the acquisition of HBOS. As a consequence, the Group's results of operations, financial condition and prospects may suffer.

The continued integration of the HBOS Group into the Group is complex, expensive and presents a number of challenges for the management of both the heritage Lloyds TSB Group, the HBOS Group and their respective staff and potentially their respective customers. The Group believes that it will achieve its reported anticipated cost synergies as well as other operating efficiencies and business growth opportunities, revenue benefits and other benefits from the acquisition of HBOS. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Group determined the acquisition of HBOS consideration may prove to be incorrect. For example, the expected cost synergies were calculated by the Group on the basis of the existing and

projected cost and operating structures of the Group and its estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

The Group may also face a number of other risks with respect to the acquisition of HBOS including retaining key employees; redeploying resources in different areas of operations to improve efficiency; unifying financial reporting and internal control procedures, minimising the diversion of management attention from ongoing business concerns, overcoming integration challenges (particularly as the Company's management may be unfamiliar with some aspects of the HBOS Group's business and operations) and addressing possible differences between the Bank's business culture, risk management, compliance systems and processes, controls, procedures, systems, accounting practices and implementation of accounting standards in respect of the HBOS Group.

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

3 BUSINESS AND ECONOMIC RISKS

3.1 The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, such as further deterioration of general economic conditions, particularly in the UK, could cause the Group's earnings and profitability to decline. In addition, a credit rating downgrade of the United Kingdom, and any further downgrades of Eurozone countries (or a perception that downgrades may occur) may severely destabilise the markets and could have a material adverse effect on the Group's operating results, financial condition and prospects.

The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom, in which the Group's earnings are predominantly generated. While recent economic figures show most countries exiting recession, forecasts are that the recovery will continue to be at a modest pace and is likely to be protracted. With the UK just out of the worst recession since World War II, significant downside economic risks remain including, but not limited to, "double-dip" recession and stagnation. Any further significant deterioration in the UK and other economies in which the Group operates could have a material adverse impact on the future results of operations of the Group. The rate at which the recent deterioration of the global and UK economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

Additionally, the profitability of the Group's businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment which may continue even following the return to economic growth in the markets in which the Group operates. Significantly higher unemployment in the UK and elsewhere, reduced

corporate profitability, reduced personal non-salary income levels, increased corporate insolvency rates, increased personal insolvency rates, increased tenant defaults and/or increased interest rates may reduce borrowers' ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group's loans. This, in turn, would cause increased impairments in the event of default. Poor general economic conditions, lack of market liquidity and lack of transparency of asset structures have depressed asset valuations for the Group and could continue to do so if there is a further deterioration in general economic conditions.

The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably Ireland, Spain, Australia and the United States, and is therefore subject to a variety of risks relating to the performance of these economies as well.

In addition, the Group's businesses are subject to risks arising from the current UK macroeconomic environment, high and increasing levels of UK government debt and the impact of the announced UK Budget cuts and expected further cuts. Further, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the Group's operating results, financial condition and prospects. This might also include impact on the Group's own credit ratings, borrowing costs and ability to fund itself.

A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the downside risks, including the risk of a "double-dip" recession.

These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Italy, the Republic of Ireland, Greece, Portugal, and Spain in particular. Further instability in these countries or others might lead to contagion, which may have a material adverse effect on the Group's operating results, financial condition and prospects.

The exact nature of the risks faced by the Group is difficult to predict and guard against in view of (i) the severity of the global financial crisis, (ii) difficulties in predicting whether the recovery will be sustained and at what rate, and (iii) the fact that many of the related risks to the business are totally, or in part, outside the control of the Group.

3.2 The Group's businesses are inherently subject to the risk of market fluctuations, which could materially adversely affect its operating results, financial condition and prospects.

The Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

Market movements have had and will have an impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect,

which could be material, upon the financial condition of the pension schemes of the Group. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. While margins over official rates returned to historically more normal levels during the latter part of 2009 and early 2010, the potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

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

Changes in foreign exchange rates affect the value of assets and liabilities denominated in foreign currencies and such changes and the degree of volatility with respect thereto may affect earnings reported by the Group. In the Group’s international businesses, earnings and net assets are denominated in local currency, which will fluctuate with exchange rates in pounds sterling terms. It is difficult to predict with any accuracy changes in economic or market conditions, and such changes could have a material adverse effect on the Group’s operating results, financial condition and prospects.

3.3 The Group’s businesses are conducted in highly competitive environments and the Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures.

The markets for UK financial services, and the other markets within which the Group operates, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. Moreover, UK Government and/or European intervention in the banking sector may impact the competitive position of the Group relative to its international competitors which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Group’s financial performance and its ability to capture additional

market share depends significantly upon the competitive environment and management's response to it.

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

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

3.4 Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the Group. Negative fair value adjustments have had, and may continue to have in the future, a further material adverse effect on the Group's operating results, financial condition and prospects.

Financial markets have been subject to significant stress conditions resulting in steep falls in perceived or actual financial asset values, particularly due to the severe dislocation in the global financial markets.

The Group has material exposures to securities and other investments, including, but not limited to, asset-backed securities, structured investments and private equity investments, that are recorded at fair value and are therefore exposed to further negative fair value adjustments, particularly in view of market dislocation and the fragility of the economic recovery. Although the Board of Directors of the Company (the "Board") believes that overall impairments for the Group have peaked, asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by the Group for its securities and other investments may be lower than the current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

The Group has made asset redesignations as permitted by recent amendments to IAS 39 ("Financial Instruments: Recognition and Measurement"). The effect of such redesignations has been, and would be, that any effect on the income statement of movements in the fair value of such redesignated assets that have occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or may occur in the future, may not be recognised until such time as the assets become impaired or are disposed of.

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability. In such circumstances, the Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are

inherently uncertain, particularly in light of the uncertainty as to the strength of any global recovery and continuing downside risks and any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

4 CREDIT-RELATED RISKS

4.1 The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet.

As one of the UK's largest lenders with substantial business and operations overseas, the Group has exposures to many different products and counterparties, and the credit quality of its exposures can have a significant impact on its earnings. The Group makes both secured and unsecured loans to retail and corporate customers and the Group's businesses are subject to inherent risks regarding the credit quality of, the recovery of loans to and amounts due from, customers and market counterparties. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets, and materially increase the Group's write-downs and allowances for impairment losses.

The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to its results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how these economic conditions might impair the ability of its borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to identify the proper factors or that it will fail to estimate accurately the impact of factors that it identifies.

As a result of the acquisition of HBOS, the composition of the Group's wholesale portfolio has materially changed, with much larger sectoral concentrations (for example in real estate, leveraged lending, asset-backed securities and floating rate notes issued by financial institutions) and higher levels of credit risk including substantially greater exposures, particularly in Ireland, Australia and the U.S.

At the time of the acquisition of HBOS, the average rating of the HBOS Group's corporate lending portfolio was significantly weaker than that of the heritage Lloyds TSB Group, and this continues to be the case. HBOS had substantial lending to mid-sized and private companies, a greater exposure than the heritage Lloyds TSB Group to leveraged finance and subordinated loans, as well as significant exposure to the commercial real estate sector, including hotels and residential property developers, which has been particularly adversely affected by the recessionary environment. These concentrations in cyclically weak sectors, as well as exposure at various levels of the capital structure, mean that the heritage HBOS wholesale business is potentially exposed to high and volatile levels of impairments.

It should be noted that the heritage HBOS portfolio in Ireland is heavily exposed to the commercial and residential real estate sectors, which have been negatively impacted by the economic recession, the portfolio in Australia has material exposure to real estate and leveraged lending, and in the United States there are notable exposures to sectors such as gaming and real estate which are cyclically weak and have been negatively impacted by the

economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

UK house prices have declined significantly, albeit modest increases have been observed more recently, reflecting a correction of severely inflated asset values, triggered by the economic downturn and lower availability of credit. Economic or other factors may lead to further contraction in the mortgage market and further decreases in housing prices. Many borrowers in the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of mortgages, together with the potential for higher mortgage rates, could lead to higher default and delinquency rates. The Group provides mortgages to buy-to-let investors where increasing unemployment, an excess supply of rental property or falls in rental demand could also impact the borrowers' income and ability to service the loans. If interest rates rise, or the current economic recovery falters, causing further decreases in house prices and/or increases in unemployment, the Group's retail portfolios could generate substantial impairment losses which could materially affect its operations, financial condition and prospects. Furthermore, the Group has direct exposure to self-certification and sub-prime mortgages in the UK and is therefore subject to the risks inherent in this type of mortgage lending in the event of decreases in house prices, increases in unemployment or a reduction in borrowers' incomes and the risk that the Group has incorrectly assessed the credit quality or willingness to pay of borrowers as a result of incomplete or inaccurate disclosure by those borrowers. At present, mortgage default and delinquency rates are cushioned by unprecedented low rates of interest which have improved customer affordability, and this has created the risk of increased defaults and delinquency rates as the economy recovers from the recession and interest rates start to rise.

Although the Board believes that overall impairments for the Group have peaked, there is a risk of further increases in the impairment charges for some businesses and there remain ongoing concerns with regard to the outlook for the Irish economy in particular. Moreover, there remains a risk that further material impairments in the Group's portfolios could come to light, particularly in the event of any further significant deterioration in the economic environment although the performance of some of the Group's exposures might deteriorate further even in the absence of further economic decline, particularly in Ireland. Any such unforeseen material further impairments could have a material and adverse effect on the Group's operations, financial condition and prospects.

4.2 Concentration of credit and market risk could increase the potential for significant losses.

The Group has exposure to concentration risk where its business activities focus particularly on a similar type of customer or product or geographic location including the UK market, which could be adversely affected by changes in economic conditions. Additionally, the heritage HBOS strategy of supporting UK entrepreneurs together with its joint venture model and its focus on commercial property lending has given rise to significant single name and risk capital exposure. Given the Group's high concentrations of property exposure, further decreases in residential or commercial property values and/or further tenant defaults are likely to lead to higher impairment losses, which could materially affect its operations, financial condition and prospects.

The Group's efforts to diversify or hedge its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. In addition, the disruption in the liquidity or transparency of the financial markets may result in the Group's inability to sell or syndicate securities, loans or other instruments or positions held, thereby leading to increased concentrations of such positions. These concentrations could expose the Group to losses if the mark-to-market value of the securities, loans or other instruments or positions declines causing the Group to take write-downs. Moreover, the inability to reduce the Group's positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on the Group's balance sheet, thereby increasing its capital requirements and funding costs, all of which could adversely affect the Group's operating results, financial condition and prospects. The acquisition of HBOS has in some cases increased the Group's exposure to concentration risk, since the combination of two portfolios inevitably gives rise to some greater concentrations than would otherwise have been permitted. Market conditions at present mean that it is difficult to achieve the required level of sales to ameliorate these concentrations.

4.3 If the perceived creditworthiness of market counterparties does not improve or continues to deteriorate, the Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

The Group has credit exposure to market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps ("CDSs") which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought. Market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived creditworthiness has deteriorated significantly since 2007. They may continue to be substantially adversely impacted by such or other events. Their creditworthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Group seeks to limit and manage direct exposure to market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already recorded. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group.

4.4 The Group's borrowing costs and access to the capital markets depend significantly on the Company's credit ratings and market perception of the Company's financial resilience and those of Lloyds TSB Bank plc, HBOS plc and the Bank of Scotland plc and any deterioration could materially adversely affect the Group's results of operations, financial condition and prospects.

As at 20 August 2010, the long-term credit ratings for the Company were A1 from Moody's Investors Service Limited, A from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and A (high) from DBRS. As at 20 August 2010, the long-term credit ratings for the Bank were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 20 August 2010, the long-term credit ratings for HBOS were A1 from Moody's Investors Service Limited, A from Standard & Poor's Rating Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 20 August 2010, the long-term credit ratings for BOS were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS.

As at 20 August 2010, the Company also had short-term ratings of A-1 from Standard & Poor's Ratings Services and F1+ from Fitch Ratings Ltd. The Bank had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. HBOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. BOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS.

Reduction in the credit ratings of the Group or deterioration in the capital market's perception of the Group's financial resilience, could significantly increase its borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, any further reduction in credit ratings or deterioration of market perception could materially adversely affect the Group's access to liquidity and competitive position, increase its funding costs and, hence, have a material adverse effect on the Group's business, financial position and results of operations. These material adverse effects could also follow from a reduction in the credit ratings of the Bank, HBOS or BOS.

5 FINANCIAL SOUNDNESS RELATED RISKS

5.1 The Group's businesses are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale money markets continues to be limited or becomes more limited. The Group continues to be reliant on various government liquidity schemes and will face refinancing risk as transactions under these schemes mature.

The Group's businesses are subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Group's profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency, including its ability to meet its

regulatory minimum liquidity requirements. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group or to all banks which could increase the Group's cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable in the long run. The funding needs of the Group will increase to the extent that customers, including conduit vehicles of the Group, draw down under existing credit arrangements with the Group and such increases in funding needs may be material. In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets, central bank liquidity facilities (for example, Bank of England, European Central Bank and Federal Reserve Bank of New York) and the UK Government Credit Guarantee Scheme. The ability of the Group to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could affect the Group's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the Group's lending activities will depend, in part, on the availability of retail funding on appropriate terms, for which there is increasing competition. See "Risk factors – Business and economic risks – The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures" for a discussion of the competitive nature of the banking industry and competitive pressures that could have a negative impact on the availability of customer deposits and retail funding. This reliance has increased in the recent past given the difficulties in accessing wholesale funding. Increases in the cost of such funding will impact on the Group's margins and affect profit, and a lack of availability of such retail deposit funding could impact on the Group's future growth.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Group's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Any loss in consumer confidence in the banking businesses of the Group could significantly increase the amount of retail deposit withdrawals in a short space of time and this may have an adverse effect on the Group's profitability. Should the Group experience an unusually high and unforeseen level of withdrawals, in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency.