



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

March 6, 2014

John Banes, Esq.
Davis Polk & Wardwell London LLP
99 Gresham Street
London EC2V 7NG, England

**Re: Lloyds Banking Group plc: Exemptive Relief from Rule 102 of Regulation M
File No. TP 14-06**

Dear Mr. Banes:

In your letter dated March 6, 2014, as supplemented by conversations with the staff, you request on behalf of Lloyds Banking Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland (“LBG”) an exemption from Rule 102 of Regulation M under the Securities Exchange Act of 1934 (“Exchange Act”) in connection with a proposed Exchange Offer. We have enclosed a photocopy of your letter. Each defined term in our response has the same meaning as defined, directly or by reference, in your attached letter, unless we note otherwise.

On September 16, 2013, the Commission granted LBG an exemption from Rule 102 of Regulation M to permit certain LBG affiliates (or, collectively, the “Companies”) to conduct specified transactions (or Market Activities) in LBG Ordinary Shares and LBG ADSs during the distribution of LBG Ordinary Shares and LBG ADSs by United Kingdom Financial Investments in connection with the Placing (the “Original Relief”).¹ In your letter, you seek the same exemptive relief from Rule 102 of Regulation M as granted in the Original Relief to permit the LBG affiliates to continue to engage in these same specified transactions (or Market Activities) in LBG Ordinary Shares and LBG ADSs during the distribution of the Securities² in connection with the Exchange Offer.

In your letter, you reiterate the facts and representations contained in the Original Request Letter and confirm that there has been no material change in the matters described

¹ The specified transactions (or Market Activities), which occur outside the United States, include the derivatives transactions, hedging activities, asset management activities (except for the unsolicited asset management activities that also occur in the United States), insurance activities, trustee and personal estate representative activities, collateral taking activities, banking-related activities, employee share plan purchasing activities, unsolicited brokerage activities described in the Original Relief Letter.

² In your letter, you request exemptive relief in the event that LBG Ordinary Shares and LBG ADSs could be considered to be “reference securities” and, therefore, “covered securities” in relation to the distribution of the Securities in the Exchange Offer for purposes of Regulation M.

therein, other than the Placing, which has already occurred, since the date of the Original Request Letter.

In connection with the Exchange Offer, you specifically state that the specified transactions (or Market Activities) by LBG and its affiliates will be conducted in the ordinary course of business, and not to facilitate the Exchange Offer, and that they will be conducted in accordance with applicable local law. You also state that the continuation of these activities will not have a significant effect on the market price of the Securities, the LBG Ordinary Shares or LBG ADSs.

Furthermore, you state that the risk of market manipulation under the Exchange Offer is limited (i) because the exchange ratio of the Securities in the Exchange Offer will primarily reflect LBG's consolidated credit risk and will likely be priced and traded more like traditional fixed-income debt instruments than conventional convertible instruments, (ii) because the market activities that are the subject of this request for exemptive relief are the ordinary course customer-driven market activities of LBG rather than activities commenced or managed in contemplation of the Exchange Offer, (iii) due to the existence of the "Chinese Wall" procedures and duties described in the Original Request Letter, and (iv) as the jurisdictions in which LBG operates have laws that prohibit market manipulation (as discussed under the caption "The Regulatory Market in the United Kingdom" in the Original Request Letter).

You also confirm that the availability of the exemption that LBG is requesting shall be conditioned on the disclosure and undertakings set forth in conditions 1 to 8 of the Original Relief, and as set forth below.

Response:

Based on the facts and representations that you have reiterated and confirmed in your letter, the Commission finds that it is necessary or appropriate in the public interest, and is consistent with the protection of investors to grant, and hereby grants, LBG an exemption from Rule 102 of Regulation M to permit the LBG Derivatives Business Units, the LBG Asset Managers (including SWIP and Lloyds TSB Offshore Private Clients Limited), the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, the LBG Banking Share Incentive Plan Trustee, the ESOT Trustees, and the LBG Brokerage Units (collectively, the "Companies") to continue to engage in the transactions in LBG Ordinary Shares and LBG ADSs as referenced in your letter, and described in your Original Request Letter.

The exemption is subject to the following conditions:

1. None of the transactions of the Companies referenced in your letter, and described in the Original Request Letter, shall occur in the United States, with the exception of the unsolicited asset management activities of SWIP and Lloyds TSB Offshore Private Clients Limited as referenced in your letter, and described in the Original Request Letter;

2. All of the transactions referenced in your letter, and described in the Original Request Letter, shall be effected in the ordinary course of business and not for the purpose of facilitating the Exchange Offer;
3. The documents distributed to U.S. investors in connection with the Exchange Offer will disclose the possibility of, or the intention to make, the transactions referenced in your letter, and described in the Original Request Letter;
4. LBG and each of the Companies will provide to the Division of Trading and Markets ("Division"), upon request, a time-sequenced schedule of all such transactions made during the Restricted Period. Such schedule will include:
 - (a) size, broker (if any), time of execution, and price of the transactions;
 - (b) the exchange, quotation system, or other facility through which the transactions occurred, and
 - (c) whether the transactions were made for a customer account of a proprietary account;
5. Upon request of the Division, LBG and each of the Companies will transmit the information requested in item 4 (above) to the Division at its offices in Washington, DC, within 30 days of its request;
6. LBG and each of the Companies shall retain all documents and other information required to be maintained pursuant to this exemption for at least two years following the completion of the Exchange Offer;
7. Representatives of LBG and each of the Companies shall be made available (in person at the offices of the Commission in Washington, DC, or by telephone) to respond to inquiries of the Division relating to their records; and
8. Except as otherwise exempted by this letter, LBG and each of the Companies will comply with Regulation M.

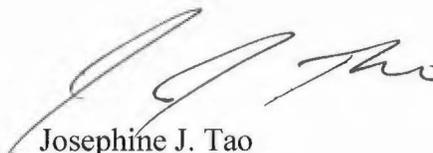
The foregoing exemption from Rule 102 of Regulation M is based solely on your representations and the facts presented to the staff and is strictly limited to the application of this rule to the proposed transactions. Such transactions should be discontinued, pending presentation of the facts for our consideration, in the event that any material change occurs with respect to any of those facts or representations.

In addition, your attention is directed to the anti-fraud and anti-manipulation provisions of the Exchange Act, including Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal

John Banes, Esq.
March 6, 2014
Page 4 of 4

securities laws must rest with the participants in the various transactions. The Division expresses no view with respect to any other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure concerning, and the applicability of any other federal or state laws to, the proposed transactions.

For the Commission,
by the Division of Trading and Markets,
pursuant to delegated authority,³

A handwritten signature in black ink, appearing to read "J. J. Tao", is written over the typed name.

Josephine J. Tao
Assistant Director

Attachment

³ 17 CFR 200.30-3(a)(6).

New York
Menlo Park
Washington DC
São Paulo
London

Paris
Madrid
Tokyo
Beijing
Hong Kong

Davis Polk

Davis Polk & Wardwell London LLP 020 7418 1300 tel
99 Gresham Street 020 7710 1400 fax
London EC2V 7NG

March 6, 2014

Re: Lloyds Banking Group plc - Request for Exemptive Relief from Rule 102 of Regulation M

Josephine Tao
Assistant Director
Division of Trading and Markets
Securities and Exchange Commission
100F Street, NE
Washington D.C. 20549

Dear Ms. Tao:

We are writing on behalf of our client, Lloyds Banking Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland ("**LBG**"), regarding the application of Regulation M ("**Regulation M**") under the Securities Exchange Act of 1934 (the "**Exchange Act**") to transactions by LBG and its affiliates in the ordinary shares of LBG (the "**LBG Ordinary Shares**") and the American Depositary Shares, each representing the right to receive four LBG Ordinary Shares ("**LBG ADSs**"), of LBG. The request for relief relates to a proposed offer by indirect wholly-owned subsidiaries of LBG to exchange securities issued by LBG that qualify as a regulatory capital instrument under CRD IV (as defined below) (the "**Securities**") for certain existing classes of their enhanced capital notes (the "**Exchange Offer**").

1. Background to the Exchange Offer

The European regulations implementing Basel III standards on bank capital requirements (the "**Capital Requirements Directive Package**" or "**CRD IV**") were implemented in the United Kingdom as of January 1, 2014. Under the Exchange Offer, LBG is seeking to issue contingent convertible securities structured to qualify as additional tier 1 capital for UK regulatory purposes under CRD IV. The Prudential Regulatory Authority (the "**PRA**"), the regulatory authority in the United Kingdom that will determine the capital treatment of the Securities, has reviewed the proposed terms of the Securities. The most significant features of the Securities for purposes of this request are described in greater detail below. Most importantly, the Securities would mandatorily convert into LBG Ordinary Shares and/or LBG ADSs if the ratio of LBG's consolidated common equity tier 1 capital, as defined under CRD IV, falls below 7.0% of its risk weighted assets (the "**Conversion Trigger**"). At December 31, 2013, LBG's consolidated common equity tier 1 capital ratio, adjusted to reflect full implementation of CRD IV, based on its interpretation of the rules as they are proposed to be implemented, was estimated to be 10.3%.

2. Requested Relief

On behalf of LBG, we ask the Staff (the "**Staff**") of the Securities and Exchange Commission (the "**Commission**") to grant LBG and its affiliates exemptive relief from Rule 102 of Regulation M ("**Rule 102**") to permit them to continue, in the ordinary course of business and in accordance with applicable local law, to engage during the Restricted Period (as defined below) in connection with the Exchange Offer in the activities described in the exemptive letter dated September 16, 2013 (the "**Original Request Letter**"), for which relief was granted in connection with the distribution of LBG Ordinary Shares by United Kingdom Financial Investments (the "**Original Relief**"). LBG is seeking exemptive relief in the event that LBG Ordinary Shares and LBG ADSs could be considered "reference securities" in relation to the Securities (that will be issued in the Exchange Offer) for purposes of Regulation M. A copy of each of the Original Request Letter and the Original Relief is attached as Annex A hereto.

The Original Request Letter sought exemptive relief to permit LBG and certain of its affiliates to conduct specified ongoing market activities in LBG Ordinary Shares and LBG ADSs during the distribution of LBG Ordinary Shares and LBG ADSs, as described in the Original Relief Letter. LBG reiterates the facts and representations contained in the Original Request Letter, and confirms that there has been no material change in the matters described therein, other than the Placing, which has already occurred, since the date of the Original Request Letter.

3. Market for the LBG Ordinary Shares and LBG ADSs

We do, however, note that (i) as of December 31, 2013, 71,368 million LBG Ordinary Shares were issued and outstanding and approximately 73% of the outstanding LBG Ordinary Shares were held of record by residents of the United Kingdom, (ii) during the twelve-month period ended December 31, 2013, the worldwide average daily trading volume ("**ADTV**") of LBG Ordinary Shares was approximately 335.9 million shares (approximately £215.7 million or \$337.6 million in value, using the Federal Reserve Board exchange rate of £1.00 = \$1.6574 as of December, 31, 2013), of which approximately 2.2% was outside of the United Kingdom, (iii) during the twelve-month period ended December 31, 2013, the worldwide ADTV of LBG ADSs listed on the New York Stock Exchange was approximately 3.0 million LBG ADSs (approximately £8.2 million or \$13.0 million in value) and (iv) LBG market capitalization at December 31, 2013 was approximately £56.3 billion or \$93.3 billion.

4. The Exchange Offer and the Securities

The Exchange Offer will commence on March 6, 2014 upon the filing of the registration statement of the Securities with the Commission on Form F-4. Pursuant to the terms of the Exchange Offer, indirect wholly-owned subsidiaries of LBG will offer to exchange up to a total of \$1,675,000,000 aggregate principal amount of Securities. The Exchange Offer and the Securities will have the features listed below. Many of the features of the Securities reflect requirements for capital treatment under CRD IV:

- (a) *Pricing.* The fixed interest rate of the Securities (referred to in paragraph (e) below) and the fixed exchange price reflecting the number of Securities to be exchanged for the classes of enhanced capital notes which are the subject of the Exchange Offer will each be determined prior to the commencement of the Exchange Offer.

- (b) *No Maturity Date.* The Securities will be perpetual and may not be redeemed at the option of holders.
- (c) *Subordination.* If a winding-up of LBG occurs prior to the occurrence of the Conversion Trigger, each holder of the Securities will be treated as if it was the holder of the most senior class of issued preference shares in the capital of the LBG.
- (d) *Conversion.* Following a Conversion Trigger, the conversion of the Securities into LBG Ordinary Shares (or LBG ADSs) will be at a fixed price, which will be determined prior to the commencement of the Exchange Offer, as adjusted for customary anti-dilution events.
- (e) *Interest.* Interest will be paid on the Securities at a fixed rate, which will be periodically reset on specified dates. LBG may call the Securities on the first interest reset date and on any interest reset date thereafter. Interest will be paid on scheduled interest payment dates, subject to, among other things, the solvency condition referred to in paragraph (f) below and to the availability of distributable items, as defined under CRD IV and applicable regulations. In addition, LBG may in its sole discretion cancel any scheduled interest payment in whole or in part, and any interest so cancelled would cease to be due and payable.
- (f) *Payments.* Certain payments in respect of the Securities, including payments of principal upon redemption, scheduled interest payments or payments for damages for breach of any obligations under the Securities are conditional upon LBG being "Solvent" at the time when the relevant payment is due to be made, defined as (i) LBG being able to pay debts as they fall due owed to its creditors with claims ranking senior to those of holders of the Securities, and (ii) certain of LBG's assets are at least equal to certain of LBG's liabilities.

The Securities will be issued pursuant to an indenture qualified under the Trust Indenture Act of 1939, as amended. In addition, the Securities will be governed by New York law, except that, as is customary for regulatory capital instruments issued by U.K. banking groups, the subordination provisions will be governed by the law of LBG's jurisdiction of incorporation, Scotland.

LBG expects that the Securities will be marketed primarily to institutional investors, especially those focused on subordinated regulatory bank capital and similar fixed income products. LBG expects the issue price of the Securities reflected in the exchange ratio to be based primarily on a spread above an appropriate benchmark to reflect the Group's credit risk, rather than on the current and expected trading price of the LBG Ordinary Shares and LBG ADSs.

5. Application of Regulation M

The Exchange Offer will involve a distribution as defined in Rule 100 of Regulation M and, if LBG Ordinary Shares and LBG ADSs are deemed to be "reference securities"¹ and, therefore,

¹ Indirect wholly-owned subsidiaries of LBG will, through dealer managers, offer the Securities in the Exchange Offer. Such Securities, under very limited circumstances, could automatically and mandatorily convert into LBG Ordinary Shares which, upon election of the holder, may be delivered as LBG ADSs. Although LBG expects that the Securities will be priced and trade more like traditional fixed-income debt instruments than conventional convertible instruments, the LBG

“covered securities” for purposes of the Exchange Offer under Regulation M, LBG’s market activities would be subject to Rule 102 during the relevant restricted period for the distribution (the “**Restricted Period**”). As such, we request relief for the ordinary course market activities of LBG and its affiliates described in this letter under Rule 102.

Under Rule 102, LBG and its affiliates (as “affiliated purchasers” of LBG), would not be permitted to bid for or purchase, or attempt to induce any person to bid for or purchase, LBG Ordinary Shares or LBG ADSs during the Restricted Period, except to the extent that one of the specified exceptions in the rule is available. LBG believes that under Regulation M, the Restricted Period for the distribution will begin on the day the Form F-4 is filed with the Commission, which is the day the Exchange Offer materials are first disseminated to holders of the enhanced capital notes, and will end upon the expiration of the Exchange Offer. Accordingly, in order to comply with Regulation M, the Restricted Period for the Exchange Offer is expected to last at least several weeks.

There are no exceptions available under Rule 102 that would permit LBG and its affiliates to engage in the market activities with respect to LBG Ordinary Shares and LBG ADSs during the Restricted Period as described in Original Request Letter. Therefore, without the requested exemptive relief, LBG and its affiliates would not be permitted to engage in such activities for an extended period of time.

LBG believes that the continuation of these activities will not have a significant effect on the market price of the Securities, the LBG Ordinary Shares or LBG ADSs. The withdrawal from the market of the LBG Ordinary Shares, which are among the most actively traded in the United Kingdom, and LBG ADSs would have harmful effects on the customers of LBG and the ordinary business of LBG and its affiliates.

In addition, these ordinary course activities are important aspects of LBG’s business as a major financial institution in the United Kingdom and, therefore, interrupting those activities for a period could have an adverse impact on LBG’s business, including its ability to properly manage its risks.

Furthermore, LBG believes that the risk of market manipulation under the Exchange Offer is limited (i) because the exchange ratio of the Securities in the Exchange Offer will primarily reflect LBG’s consolidated credit risk and will likely be priced and traded more like traditional fixed-income debt instruments than conventional convertible instruments, (ii) because the market activities that are the subject of this request for exemptive relief are the ordinary course customer-driven market activities of LBG rather than activities commenced or managed in contemplation of the Exchange Offer, (iii) due to the existence of the “Chinese Wall” procedures and duties described in the Original Request Letter, and (iv) as the jurisdictions in which LBG operates have laws that prohibit market manipulation (as discussed under the caption “The Regulatory Market in the United Kingdom” in the Original Request Letter).

Ordinary Shares and LBG ADSs, as mentioned above, may be deemed “reference securities” in relation to the Securities issued in the Exchange Offer pursuant to Rule 100 of Regulation M. As a result, the LBG Ordinary Shares and LBG ADSs may be deemed “covered securities” for purposes of the Exchange Offer.

6. Relief Requested

For the foregoing reasons, LBG asks the Staff to provide exemption from Regulation M that would allow LBG, through its business groups and affiliates identified in the Original Request Letter, to continue to engage in the market activities with respect to LBG Ordinary Shares and LBG ADSs in the ordinary course of their respective businesses described in the Original Request Letter during the Restricted Period, as permitted in accordance with applicable law in the United Kingdom.

As a condition to the relief being requested, LBG will also undertake to include disclosure in the prospectus that will be distributed to U.S. investors in connection with the Exchange Offer. The disclosure would be substantially similar to the following:

"LBG affiliates will continue to engage, including during the Exchange Offer, in one or more market activities involving LBG Ordinary Shares and LBG ADSs, including derivatives transactions (including hedging), trading by asset managers, trading by insurance companies, trading by trustees and personal representatives of estates, collateral taking, retail and commercial banking related activities, trading pursuant to employee incentive plans, and unsolicited brokerage activities. These market activities have occurred and are expected to continue to occur both outside and inside the United States, solely in the ordinary course of business and not in contemplation of the Exchange Offer."

The availability of the exemption that LBG is requesting would be conditioned on the undertakings set forth in conditions 1 to 8 of the Original Relief.

If you have any questions about this request, please do not hesitate to contact me in London at +44 20-7418-1317. We appreciate your assistance in this manner.

Yours sincerely,



John Baner
Davis Polk & Wardwell LLP

Cc: Joan Collopy
Securities and Exchange Commission

Hugh Pugsley
Lloyds Banking Group plc

ANNEX A

[Copy of Original Request Letter]

[Copy of Original Relief]



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

September 16, 2013

Patrick Sheil, Esq.
Linklaters LLP
One Silk Street
London EC2Y 8HQ

Re: Lloyds Banking Group plc
File No. TP 13-12

Dear Mr. Sheil:

In your letter dated September 16, 2013, as supplemented by conversations with members of the staff (the "Staff") of the Securities and Exchange Commission ("Commission"), you request on behalf of Lloyds Banking Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland ("LBG"), an exemption from Rule 102 of Regulation M under the Securities Exchange Act of 1934 ("Exchange Act") in connection with the distribution of LBG Ordinary Shares by way of a placement of shares ("the Placing") to interested purchasers by United Kingdom Financial Investments ("UKFI"), which manages the 38.7% shareholding in the Group for the United Kingdom Treasury ("HM Treasury").

You seek an exemption to permit LBG and its affiliates to conduct specified transactions outside the United States in LBG Ordinary Shares and LBG ADSs during the Placing. Specifically, you request that: (i) the LBG Derivatives Business Units be permitted to continue to engage in derivatives transactions, including hedging activities, as described in your letter; (ii) the LBG Asset Managers be permitted to continue to engage in asset management activities as described in your letter; (iii) the LBG Insurance Companies be permitted to continue to engage in insurance activities as described in your letter; (iv) the LBG Trustees and Personal Representatives be permitted to continue to engage in trustee and personal representative-related activities as described in your letter; (v) the LBG Collateral Taking Units be permitted to continue to engage in collateral taking activities as described in your letter; (vi) the LBG Banking Groups be permitted to continue to engage in banking-related activities as described in your letter; (vii) the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees, be permitted to continue to engage in employee share plan purchasing activities as described in your letter; and (viii) the LBG Brokerage Units be permitted to continue to engage in unsolicited brokerage activities as described in your letter.

You also seek an exemption to permit certain LBG affiliates to conduct specified transactions in the United States in LBG Ordinary Shares and LBG ADSs during the Placing. Specifically, you request that Scottish Widows Investment Partnership Limited ("SWIP") and Lloyds TSB Offshore Private Clients Limited be permitted to continue to engage in unsolicited

asset management activities as described in your letter. We have attached a copy of your correspondence to avoid reciting the facts set forth therein. Unless otherwise noted, each defined term in our response has the same meaning as defined in your letter.

Response:

Based on the facts and representations that you have made in your letter, but without necessarily concurring with your analysis, the Commission hereby grants LBG an exemption from Rule 102 of Regulation M to permit the LBG Derivatives Business Units, the LBG Asset Managers (including SWIP and Lloyds TSB Offshore Private Clients Limited), the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees, and the LBG Brokerage Units (collectively, the "Companies") to continue to engage in the transactions described in your letter. In particular, in your correspondence you make the following key representations:

- During the twelve-month period ended June 30, 2013, the worldwide average daily trading volume ("ADTV") of LBG Ordinary Shares was approximately 337.0 million Shares, or approximately £155.2 million (approximately \$243.0 million) in value, and LBG's market capitalization as of June 30, 2013 was approximately £42.8 billion (approximately \$68.5 billion). During the twelve-month period ended June 30, 2013, the ADTV of LBG Ordinary Shares on the LSE was approximately 149.8 million shares, with a value of approximately £70.0 million (approximately \$109.6 million). As of June 30, 2013, the LBG Ordinary Shares comprised 2.6% of the FTSE 100 index;
- The public float value for LBG Ordinary Shares was £42.8 billion (approximately \$68.5 billion) as of June 30, 2013;
- As of June 30, 2013, approximately 98.2% of the outstanding LBG Ordinary Shares were held of record by residents of the United Kingdom;
- The principal trading market for LBG Ordinary Shares is the United Kingdom. Trading on the LSE and the European trade reporting/over-the-counter trading platforms BOAT, Chi-X, and Turquoise accounted for approximately 98% of the worldwide ADTV in LBG Ordinary Shares during the twelve-month period ended June 30, 2013;
- LBG maintains and enforces written "Chinese Wall" policies and procedures to prevent material non-public information from passing between the sales/trading areas and any other area of LBG in which price sensitive information relating to LBG Ordinary Shares (including LBG ADSs), including information relating to the Placing, would be available;
- The LBG Derivatives Business Units conduct their derivatives transactions, including hedging, outside the United States and, during the twelve-month period ended June 30,

2013, the purchases and sales of derivatives and other structured products which relate to or contain LBG Ordinary Shares and LBG ADSs amounted to no more than 1% of the worldwide ADTV of LBG Ordinary Shares (including LBG ADSs);

- The LBG Asset Managers conduct their asset management activities outside the United States (except as indicated below) and, during the twelve-month period ended June 30, 2013, the asset management activities of the LBG Asset Managers amounted to approximately 1.0% of the worldwide ADTV of LBG Ordinary Shares (including LBG ADSs);
- SWIP and Lloyds TSB Offshore Private Clients Limited conduct their unsolicited asset management activities in the United States (*i.e.*, constituting no more than 0.1% of the worldwide ADTV in LBG Ordinary Shares) in the ordinary course of business and not in contemplation of the Placing. Both SWIP and Lloyds TSB Offshore Private Clients Limited are registered with, and are subject to the supervision and regulation of, the Commission. Both SWIP and Lloyds TSB Offshore Private Clients Limited are also registered with the Commission as Investment Advisers;
- The LBG Insurance Companies conduct their insurance activities outside the United States;
- The LBG Trustees and Personal Representatives conduct their trustee and personal representative-related activities outside the United States and, during the twelve-month period ended June 30, 2013, the ADTV of LBG Ordinary Shares (including LBG ADSs) traded pursuant to these activities by the LBG Trustees and Personal Representatives represented less than 0.1% of the worldwide ADTV of LBG Ordinary Shares (including LBG ADSs);
- The LBG Collateral Taking Units conduct their collateral taking activities outside the United States;
- The LBG Banking Groups conduct their banking-related activities outside the United States;
- The Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees all conduct their employee share plan activities outside of the United States;
- The LBG Brokerage Units conduct their unsolicited brokerage activities outside the United States and, during the twelve-month period ended June 30, 2013, the unsolicited brokerage activities of LBG Brokerage Units amounted to no more than 2.0% of the worldwide ADTV in LBG Ordinary Shares (including LBG ADSs);

- The withdrawal from the market for the LBG Ordinary Shares, which are among the most actively traded in the United Kingdom, and LBG ADSs for a period of time would have harmful effects on the customers and ordinary business of LBG and its affiliates;
- Each of the LBG Derivatives Business Units, the LBG Asset Managers, the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees, and the LBG Brokerage Units has each confirmed that the activities for which it is requesting relief will be conducted in the ordinary course of its businesses and in accordance with the applicable laws of the United Kingdom and other laws.

The exemption is subject to the following conditions:

1. None of the transactions of the Companies described in your letter shall occur in the United States, with the exception of the unsolicited asset management activities of SWIP and Lloyds TSB Offshore Private Clients Limited as described in your letter;
2. All of the transactions described in your letter shall be effected in the ordinary course of business and not for the purpose of facilitating the Placing;
3. LBG and each of the Companies will provide to the Division of Trading and Markets ("Division"), upon request, a time-sequenced schedule of all such transactions made during the Restricted Period. Such schedule will include:
 - (a) size, broker (if any), time of execution, and price of the transactions;
 - (b) the exchange, quotation system, or other facility through which the transactions occurred; and
 - (c) whether the transactions were made for a customer account or a proprietary account;
4. Upon request of the Division, LBG and each of the Companies will transmit the information requested in item 3 (above) to the Division at its offices in Washington DC within 30 days of its request;
5. LBG and each of the Companies shall retain all documents and other information required to be maintained pursuant to this exemption for at least two years following the completion of the Placing;
6. Representatives of LBG and each of the Companies shall be made available (in person at the offices of the Commission in Washington, DC or by telephone) to respond to inquiries of the Division relating to their records; and

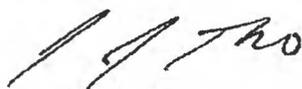
Patrick Sheil, Esq.
September 16, 2013
Page 5 of 5

7. Except as otherwise exempted by this letter, LBG and each of the Companies will comply with Regulation M.

The foregoing exemption from Rule 102 of Regulation M is based solely on your representations and the facts presented to the Staff and is strictly limited to the application of this rule to the proposed transactions. Such transactions should be discontinued, pending presentation of the facts for our consideration, in the event that any material change occurs with respect to any of those facts or representations.

In addition, your attention is directed to the anti-fraud and anti-manipulation provisions of the Exchange Act, including Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal securities laws must rest with the participants in the various transactions. The Division expresses no view with respect to any other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure concerning, and the applicability of any other federal or state laws to, the proposed transactions.

For the Commission,
by the Division of Trading and Markets,
pursuant to delegated authority,



Josephine J. Tao
Assistant Director

Attachment

Linklaters LLP
One Silk Street
London EC2Y 8HQ
Telephone (+44) 20 7458 2000
Facsimile (+44) 20 7456 2222
DX Box Number 10 CDE

Josephine J. Tao
Assistant Director
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

September 16, 2013

Re: Lloyds Banking Group plc - Request for Exemptive Relief from Rule 102 of Regulation M

Dear Ms. Tao:

We are writing on behalf of our client, Lloyds Banking Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland ("LBG" or the "Group"), regarding the application of Regulation M ("Regulation M") under the Securities Exchange Act of 1934 (the "Exchange Act") to transactions by LBG and its affiliates in the ordinary shares of LBG (the "LBG Ordinary Shares") and the American Depositary Shares, each representing the right to receive four LBG Ordinary Shares ("LBG ADSs"), of LBG. The request for relief relates to the distribution of LBG Ordinary Shares by way of a placement of shares (the "Placing") to interested purchasers by United Kingdom Financial Investments ("UKFI"), which manages the 38.7% shareholding in the Group (as at 30 June 2013) for the United Kingdom Treasury ("HM Treasury").

Background to the Placing

HM Treasury's current shareholding in the Group is a consequence of its subscription for equity securities of LBG and of HBOS plc ("HBOS") (prior to the acquisition of HBOS by LBG) in LBG's 2008 placing and open offer, a 2008 placing and open offer by HBOS, the placing and open offer conducted by LBG in May 2009 and the rights issue conducted by LBG in November 2009. In the course of each of the LBG 2008 placing and open offer, the placing and open offer conducted by LBG in May 2009 and the rights issue conducted by LBG in November 2009, LBG requested and received exemptive relief in respect of Regulation M.¹

The UKFI's stated goal is, in part, to develop and execute an investment strategy for disposing of the HM Treasury's investments in certain UK financial institutions in an orderly way through sale, redemption, buy-back or other means. It has further stated that it will manage the shareholdings of UK financial institutions,

¹ See the exemptive letters dated November 2, 2009, April 20, 2009 and October 21, 2008 to LBG (formerly Lloyds TSB Group plc).

Linklaters LLP is a multinational limited liability partnership registered in England and Wales with registered number OC328345 including solicitors of the Senior Courts of England and Wales, members of the New York Bar and foreign legal consultants in New York. It is a law firm regulated by the Solicitors Regulation Authority. The term partner in relation to Linklaters LLP is used to refer to a member of Linklaters LLP or an employee or consultant of Linklaters LLP or any of its affiliated firms or entities with equivalent standing and qualifications. A list of the names of the members of Linklaters LLP together with a list of those non-members who are designated as partners and their professional qualifications is open to inspection at its registered office, One Silk Street, London EC2Y 8HQ, England or on www.linklaters.com.

Please refer to www.linklaters.com/regulation for important information on our regulatory position.

including LBG, in which HM Treasury holds an interest on a commercial basis and will not intervene in day-to-day management decisions of such institutions.

On September 16, 2013, UKFI issued a press release announcing its intention to sell part of HM Treasury's shareholding in LBG by way of a placing to institutional investors. In it, UKFI announced that the price at which the LBG Ordinary Shares are to be sold (the "Placing Price") will be determined by way of an accelerated bookbuilding process. The Placing is expected to comprise 4,282,034,109 of LBG's ordinary shares, representing approximately 6% of the issued ordinary capital of LBG. As a result of the Placing, the overall size of HM Treasury's shareholding in the LBG will be reduced from approximately 38.7% to approximately 32.7%.

Requested Relief

Specifically, on behalf of LBG, we ask the Staff (the "Staff") of the Securities and Exchange Commission (the "Commission") to grant LBG and its affiliates exemptive relief from Rule 102 of Regulation M ("Rule 102") to permit them to continue, in the ordinary course of business as described below and in accordance with applicable local law, to engage in the following activities during the Placing:

- **Derivatives Transactions, Including Hedging:** LBG enters into derivatives transactions for the accounts of its customers and for its own account for the purpose of hedging positions (or adjusting or liquidating existing hedge positions), efficient portfolio management and for investment purposes and, as such, may issue, buy and sell derivatives and other structured products relating to LBG Ordinary Shares and LBG ADSs or to baskets or indices including LBG Ordinary Shares and LBG ADSs, as well as (largely FTSE 100) futures on the foregoing on recognized or over-the-counter markets, solely outside the United States and predominantly in the United Kingdom. These derivatives transactions are conducted through LBG's Markets Group which trades in the name of Lloyds TSB Bank plc and Bank of Scotland plc (the "**LBG Financial Markets Group**"), Scottish Widows Investment Partnership Limited, a limited company organized under the laws of the United Kingdom and certain of its affiliated entities² ("**SWIP**"), Bank of Scotland plc's Fund Management Group, Bank of Scotland plc ("**BoS**") being a public limited company organized under the laws of the United Kingdom and registered in Scotland ("**BoS Fund Management Group**"), and certain of its subsidiaries, and CMI Asset Management (Luxembourg) SA, a société anonyme organized under the laws of the Grand Duchy of Luxembourg ("**CMI**" and, together with BoS Fund Management Group, SWIP and the LBG Financial Markets Group, the "**LBG Derivatives Business Units**").³ The purchases and sales of derivatives and other structured products which relate to or contain LBG Ordinary Shares and LBG ADSs amounted to no more than 1% of the average daily trading volume (the "**ADTV**") on all exchanges in LBG Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013. The LBG Derivatives Business Units engage in their

² Affiliated entities include Lloyds TSB Investments Limited, SWIP Fund Management Limited, SWIP Multi-Manager Funds Limited and Uberior Fund Management Limited.

³ The LBG Financial Markets Group is a business unit within LBG. SWIP and CMI are wholly owned subsidiaries of LBG that primarily engage in fund management activities on behalf of a range of internal and external clients including LBG's retail life, pensions and investment products. BoS is also a wholly owned subsidiary of LBG and similarly engages in fund management activities on behalf of a range of internal and external clients including LBG's retail life, pensions and investment products. No derivatives trading or hedging activities relating to LBG Ordinary Shares are carried out by affiliates or business units of LBG other than the LBG Derivatives Business Units and the vast majority of the derivatives trading and hedging activities described herein are conducted in the United Kingdom.

market activities solely in the ordinary course of business and not in contemplation of the Placing.

- **Trading by Asset Managers:** Lloyds TSB Private Banking Limited, a limited company organized under the laws of the United Kingdom ("LPB"), Lloyds TSB Bank plc, a public limited company organized under the laws of the United Kingdom, and certain of its subsidiaries (including Lloyds TSB Offshore Limited, Lloyds TSB Offshore Private Clients Limited and Lloyds TSB Offshore Fund Manager Limited)⁴, SWIP, BoS, CMI, and certain of its subsidiaries, HBOS Investment Fund Managers Limited, a limited company organized under the laws of the United Kingdom, Clerical Medical Investment Fund Managers Limited, a limited company organized under the laws of the United Kingdom, Scottish Widows Unit Trust Managers Limited, a limited company organized under the laws of the United Kingdom, Halifax Investment Services Limited, a limited company organized under the laws of the United Kingdom, CMI Fund Managers (IOM) Limited, a limited company organized under the laws of the Isle of Man, and Lloyds TSB Investments Ltd, a limited company organized under the laws of the United Kingdom (together, the "**LBG Asset Managers**"), manage the assets, or delegate the management of the assets, of a range of internal and external clients, such as mutual funds, pension funds, regulated collective investment schemes, unregulated collective investment schemes (being a fund of hedge funds, a fund of private equity funds, a fund of property funds and individual private equity funds), money markets funds, infrastructure funds, fixed income funds, equity funds, absolute return funds, manager of manager funds and separate account investor portfolios (such funds and investor portfolios, the "**LBG Managed Funds**"). As part of their ordinary investment management activities on behalf of the LBG Managed Funds, the LBG Asset Managers arrange to buy and sell LBG Ordinary Shares and LBG ADSs as agent for the LBG Managed Funds' accounts. The LBG Asset Managers also may make investments in collective funds or indices that indirectly include LBG Ordinary Shares and LBG ADSs or include derivatives of LBG Ordinary Shares and LBG ADSs, as discussed above. The asset management activities of the LBG Asset Managers amounted to approximately 1.0% of the worldwide ADTV in LBG Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013. The foregoing asset management activities are conducted by the LBG Asset Managers predominantly, but not exclusively, within the United Kingdom and in any case no more than 0.1% of the worldwide ADTV in LBG Ordinary Shares occurred within the United States. The LBG Asset Managers engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.
- **Trading by Insurance Companies:** In the ordinary course of business, Scottish Widows plc, a public limited company organized under the laws of the United Kingdom, and its authorized subsidiaries, Clerical Medical Investment Group Limited, a limited company organized under the laws of the United Kingdom, and its authorized subsidiaries, CMI, and its authorized subsidiaries, Halifax Life Limited, a limited company organized under the laws of the United Kingdom, St. Andrew's Life Assurance plc, a public limited company organized under the laws of the United Kingdom, Pensions Management (S.W.F.) Limited, a limited company organized under the laws of the United Kingdom, Scottish Widows Annuities Limited, a limited company

⁴ Each of Lloyds TSB Offshore Limited, Lloyds TSB Offshore Private Clients Limited and Lloyds TSB Offshore Fund Manager Limited are limited companies organized under the laws of Jersey.

organized under the laws of the United Kingdom, Heidelberger Leben AG, a stock corporation organized under the laws of Germany, and CMI Insurance Company Limited, a limited company organized under the laws of the Isle of Man (the "**LBG Insurance Companies**"), sell insurance and reinsurance products requiring the insurer to invest the premiums paid by the purchaser of the policies in equities and other investments. While no direct investments are made in LBG Ordinary Shares or LBG ADSs, investments may be made indirectly in funds or indices that include LBG Ordinary Shares and/or LBG ADSs. A number of the LBG Insurance Companies provide investment advice with respect to their range of investment products. The market activities of the LBG Insurance Companies described herein are conducted solely outside of the United States. The LBG Insurance Companies engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.

- **Trading by Trustees and Personal Representatives of Estates:** Lloyds TSB Bank plc, which delegates trading authority to LPB in this regard, and certain of its subsidiaries, and BoS, and certain of its subsidiaries (together, the "**LBG Trustees and Personal Representatives**"), act as trustee, executor and/or personal representative of testamentary, *inter vivos* and charitable trusts, as well as estates (the "**LBG Trusts and Estates**"). As part of their responsibilities, the LBG Trustees and Personal Representatives purchase and sell LBG Ordinary Shares and LBG ADSs, both directly and indirectly, as part of collective investment schemes, for the accounts of the LBG Trusts and Estates. The activities of the LBG Trustees and Personal Representatives historically have represented a small proportion of all trading in LBG Ordinary Shares, and for the twelve-month period ended June 30, 2013, the ADTV of LBG Ordinary Shares (including LBG ADSs) traded pursuant to these activities represented less than 0.1% of the worldwide ADTV of LBG Ordinary Shares (including LBG ADSs). The market activities of the LBG Trustees and Personal Representatives described herein are conducted solely outside of the United States. The LBG Trustees and Personal Representatives engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.
- **Collateral Taking:** Lloyds TSB Bank plc, and certain of its subsidiaries, LPB and BoS, and certain of its subsidiaries (the "**LBG Collateral Taking Units**"), accept LBG Ordinary Shares and LBG ADSs as collateral for loans they extend to their respective customers. In the event that the borrower defaults on a loan, the LBG Collateral Taking Units may foreclose on the collateral and in some circumstances dispose of it, including by selling it in the market. The market activities of the LBG Collateral Taking Units are conducted predominantly in the United Kingdom. To the extent the LBG Collateral Taking Units engage in trading of LBG Ordinary Shares or LBG ADSs, this activity would be solely in the ordinary course of business and not in contemplation of the Placing.
- **Banking Related Activities:** In connection with their retail and commercial banking services, certain LBG affiliates, including Lloyds TSB Bank plc and certain of its subsidiaries, LPB, TSB Bank plc, a public limited company organized under the laws of the United Kingdom, Scottish Widows Bank plc, a public limited company organized under the laws of the United Kingdom and BoS (the "**LBG Banking Groups**"), engage in the marketing and sale to banking customers of investment products, including investments in funds such as unit trusts and open-ended investment companies, which may include LBG Ordinary Shares and/or LBG ADSs. In addition, the LBG Banking Groups provide a range of banking services, investment advice and

financial planning guidance to banking customers, and this advice and guidance may include information which would assist customers in determining whether to purchase or sell LBG Ordinary Shares or LBG ADSs or investment products that may include LBG Ordinary Shares or LBG ADSs or baskets or indices including LBG Ordinary Shares or LBG ADSs. The purchase and sale of LBG Ordinary Shares or LBG ADSs which may be deemed to result from these market activities may occur on any of a number of exchanges or on over-the-counter markets around the world. The activities of the LBG Banking Groups described herein are conducted predominantly in the United Kingdom. The LBG Banking Groups engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.

- **Trading Pursuant to Lloyds Banking Group Share Plan:** Equiniti Share Plan Trustees Limited, a limited company organized under the laws of the United Kingdom (the "**Lloyds Banking Group Share Incentive Plan Trustee**"), in its capacity as trustee of the Lloyds Banking Group Share Incentive Plan (the "**Lloyds Banking Group Share Incentive Plan**")⁵, purchases LBG Ordinary Shares on behalf of participating employees pursuant to the rules of the Lloyds Banking Group Share Incentive Plan. The Lloyds Banking Group Share Incentive Plan Trustee may also sell LBG Ordinary Shares on behalf of such employees. In addition, Computershare Trustees (Jersey) Limited, a limited company organized under the laws of Jersey, are the Trustees of the Lloyds TSB Group Share Ownership Trust (the "**ESOT Trustees**") and in its capacity as trustee of the Lloyds TSB Group Share Ownership Trust (the "**ESOT**"), purchases and/or subscribes for LBG Ordinary Shares for delivery to Group employees participating in any other employee share plans operated by Lloyds Banking Group (the "**Lloyds Banking Group Employee Share Plans**") in accordance with the rules of such plans and at the recommendation or request of LBG. Under the rules of the ESOT, the ESOT Trustee may acquire, hold and dispose of any property to be held under the ESOT (including LBG Ordinary Shares) and enter into any contract or incur any obligation in respect of such property. The market activities of both sets of trustees are conducted solely outside of the United States and predominantly in the United Kingdom in respect of the Lloyds Banking Group Share Incentive Plan Trustee or Jersey and the UK in respect of the ESOT Trustee, either through the facilities of the London Stock Exchange (the "**LSE**"), in over-the-counter transactions or by direct issuance from LBG. Both sets of trustees engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.
- **Unsolicited Brokerage Activities:** LBG, Lloyds TSB Bank plc, certain of its subsidiaries, LPB and Halifax Share Dealing Limited, a limited company organized under the laws of the United Kingdom, and certain of its subsidiaries (the "**LBG Brokerage Units**"), effect unsolicited brokerage transactions in LBG Ordinary Shares by placing orders in UK markets through the LSE (including through Talos Securities Ltd. ("**Talos**"), a non-LBG affiliated brokerage group that operates as a subsidiary of Société Générale Securities Services). These transactions arise from unsolicited buy or sell orders received by the LBG Brokerage Units from their respective customer bases. The unsolicited brokerage activities of the LBG Brokerage Units are conducted solely outside of the United States and predominantly in the United Kingdom through the facilities of the LSE and amounted to no more than 2.0% of the worldwide ADTV in LBG

⁵ The Lloyds TSB Shareplan has been renamed the Lloyds Banking Group Employee Share Incentive Plan and is now offered to all eligible group employees.

Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013. The LBG Brokerage Units engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.

The availability of the exemptions LBG is requesting would be conditioned on the record-keeping undertakings outlined below.

Linklaters LLP is acting as US counsel to LBG. LBG has provided and authorized Linklaters LLP to make on its behalf the factual representations set forth in this letter. The statements contained in this letter with respect to UK regulation have been reviewed by Linklaters LLP, UK counsel to LBG.

1 The Market for LBG Ordinary Shares

The principal trading market for the LBG Ordinary Shares is the United Kingdom. The LBG Ordinary Shares are listed on the LSE. The LBG Ordinary Shares are also listed on the New York Stock Exchange (the "NYSE") in the form of LBG ADSs. Each LBG ADS represents four LBG Ordinary Shares and is evidenced by an American Depositary Receipt issued by the Bank of New York Mellon, as depositary. LBG is a foreign private issuer as defined in Rule 3b-4(c) under the Exchange Act and is subject to the information reporting requirements of the Exchange Act.

As of June 30, 2013, 71,331,257,609 LBG Ordinary Shares were issued and outstanding, held by 2,699,796 record holders. Approximately 98.2% of the outstanding LBG Ordinary Shares were held of record by residents of the United Kingdom, and approximately 1.8% of the outstanding LBG Ordinary Shares were held of record by non-residents of the United Kingdom. During the twelve-month period ended June 30, 2013, total market activity in the LBG Ordinary Shares outside of the United Kingdom was approximately 2.2% of worldwide ADTV.

LBG's market capitalization at June 30, 2013 was approximately £42.8 billion or \$68.5 billion.⁶ During the twelve-month period ended June 30, 2013, the worldwide ADTV of LBG Ordinary Shares was approximately 337.0 million shares, with a value of approximately £155.2 million or \$243.0 million. During the twelve-month period ended June 30, 2013, the ADTVs of LBG Ordinary Shares on the LSE and the European trade reporting systems/over-the-counter trading platforms BOAT, Chi-X and Turquoise were approximately 149.8 million shares and 179.6 million shares, with a value of approximately £70 million or \$109.6 million and £84.6 million or \$132.4 million, respectively. This represents approximately 98% of the worldwide ADTV in the LBG Ordinary Shares during such period.

LBG ADSs were first listed on the NYSE in November 2001. During the twelve-month period ended June 30, 2013, the ADTV of LBG ADSs on the NYSE was approximately 1.9 million LBG ADSs, which represent 7.5 million LBG Ordinary Shares, with a value of approximately £3.7 million or \$5.7 million. This represents approximately 2% of worldwide ADTV in the LBG Ordinary Shares (including LBG Ordinary Shares represented by LBG ADSs) during such period.

The LSE provides for trading in equities and bonds principally through three main trading platforms: (i) the Stock Exchange Electronic Trading System ("SETS"); (ii) Stock Exchange Electronic Trading Service – quotes and crosses ("SETSqx"); and (iii) the Stock Exchange Automated Quotation ("SEAQ"). SETS is the central limit order book that directly matches willing buyers and sellers on a price/time priority basis, creating

⁶ Throughout this letter, pounds sterling rates as of a specified date have been translated to dollars at the rate of 1.6004, the rate certified by the Federal Reserve Board for June 28, 2013.

efficiencies in the markets by eliminating the need for a wholesaler. As an electronic order book, SETS can execute hundreds of trades in one second. Securities traded on SETS include the FTSE 100 and the most liquid FTSE UK AIM50 securities. SETSqx is a trading platform for securities less liquid than those traded on SETS. Since October 8, 2007, all Main Market and EURM AIM equity securities not traded on a full order book are traded on SETSqx. SEAQ is the LSE's service for the Fixed Interest market and AIM securities that are not traded on either SETS or SETSqx.

As of June 30, 2013, the market capitalization of UK and international companies on the LSE's markets amounted to £3,971 billion, or \$6.355 billion, with £7,210.7 billion, or \$11,540.1 billion, of equity business transacted over the prior twelve-month period. As of June 30, 2013, there were 2451 listed companies on the LSE. The primary market index is the FTSE 100, which is comprised of 100 of the largest companies with primary listings on the LSE, including LBG. The LBG Ordinary Shares are a significant component of the FTSE 100. The LBG Ordinary Shares comprised 2.6% of the FTSE 100 as of June 30, 2013.

2 LBG's Market Activities

LBG is a leading UK-based financial services group, whose businesses provide a wide range of banking and financial services in the UK and a number of locations overseas. Several Group companies are regulated and licensed under the Financial Services and Markets Act 2000 (the "FSMA"), the Bank of England Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA") in the United Kingdom, and its branches in the United States are subject to applicable US bank regulations, among other laws and regulations. LBG has confirmed that the activities described below, for which it is requesting relief, are permitted under, and would be conducted in accordance with, applicable UK law in relation to the Placing and other laws.

Each of the LBG Derivatives Business Units, the LBG Asset Managers, the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, the Lloyds Banking Group Share Incentive Plan Trustee, the ESOT Trustees and the LBG Brokerage Units have confirmed that the activities for which it is requesting relief will be conducted in the ordinary course of its business and in accordance with the applicable laws of the United Kingdom and other laws.

Derivatives Transactions, including Hedging. LBG conducts its derivatives and hedging activities principally from London through the LBG Derivatives Business Units.⁷ LBG may issue, buy and sell derivatives and other structured products relating to LBG Ordinary Shares or LBG ADSs or to baskets or indices including LBG Ordinary Shares or LBG ADSs, as well as (largely FTSE 100) futures on the foregoing, on recognized or over-the-counter markets, solely outside the United States and predominantly in the United Kingdom. The LBG Derivatives Business Units engage in these derivatives activities for the accounts of LBG's customers and for their own account for the purpose of hedging positions (or adjusting or liquidating existing hedge positions), for efficient portfolio management and for investment purposes.⁸ The LBG Financial Markets Group occasionally enters into OTC equity derivatives for its own account and, very rarely, on behalf of clients for hedging purposes. These transactions have not included options in relation to LBG Ordinary Shares or LBG

⁷ In addition, certain of these derivatives transactions are conducted through external fund managers including Schroder Investment Management Limited, Investec Asset Management Limited, Aberdeen Fund Management Limited, UBS Global Asset Management (UK) Limited, Old Mutual Asset Managers (UK) Limited, Jupiter Asset Management Limited and Insight Investment Management (Global) Limited.

⁸ The customers for such derivatives may include US as well as non-US based customers; however, the number of US based customers has been, and is expected to continue to be, de minimis.

ADSs in the past year. The exposure to LBG Ordinary Shares and LBG ADSs from the derivative transactions discussed above amounted to no more than 1% of the worldwide ADTV in LBG Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013. The LBG Derivatives Business Units engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.

Trading by Asset Managers. As part of their investment management activities, the LBG Asset Managers buy and sell LBG Ordinary Shares and LBG ADSs for the LBG Managed Funds in LBG's accounts. Under English law and other applicable national laws, and subject to the terms of any contractual arrangements as in effect from time to time between the relevant LBG Asset Manager and the relevant LBG Managed Fund, the LBG Asset Managers have a fiduciary or similar duty to oversee the LBG Managed Funds in a manner that is in the best interests of the investors of those funds. Accordingly, the LBG Asset Managers would be prohibited by law from following a discretionary LBG directive⁹ to cease trading LBG Ordinary Shares or LBG ADSs during the Restricted Period, unless the LBG Asset Managers believed that cessation of such trading was in the best interests of the LBG Managed Funds of LBG's beneficiaries. Similarly, the LBG Asset Managers would be prohibited by law from following a discretionary LBG directive to bid for or purchase LBG Ordinary Shares or LBG ADSs unless the LBG Asset Managers independently concluded that such bids or purchases were in the best interests of the LBG Managed Funds of LBG's beneficiaries.¹⁰

The LBG Asset Managers engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing. These market activities are conducted through the facilities of recognized exchanges, trade reporting systems and over-the-counter markets predominantly, but not exclusively, within the United Kingdom and in any case no more than 0.1% of the worldwide ADTV in LBG Ordinary Shares occurred within the United States, and also on a global basis, as appropriate for LBG's clients. The asset management activities of the LBG Asset Managers amounted to approximately 1.0% of the worldwide ADTV in LBG Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013. The only LBG Asset Managers that conduct their market activities in the United States are SWIP and Lloyds TSB Offshore Private Clients Limited, a Jersey limited company ("Lloyds TSB Offshore Private Clients Limited"). SWIP¹¹ and Lloyds TSB Offshore Private Clients Limited are registered with, and subject to the supervision and regulation of, the Commission and are also registered with the Commission as Investment Advisers.¹²

⁹ As used here, "discretionary LBG directive" refers to a directive that LBG delivers unilaterally and voluntarily and not one that it is required to deliver by operation of law in the UK or another jurisdiction, such as a stop notice pursuant to the UK's City Code on Takeovers and Mergers.

¹⁰ LBG Asset Managers also delegate authority to non-group investment managers to manage defined portfolios on behalf of clients, which may invest in LBG Ordinary Shares or LBG ADSs. The non-group investment managers may also invest in non-group collective investment arrangements, which are not under the control of LBG and which may buy and sell LBG Ordinary Shares and LBG ADSs. It would not be appropriate for LBG to restrict the trading of non-group investment managers in LBG Ordinary Shares and LBG ADSs during the Restricted Period. Accordingly LBG is not seeking relief from the Staff for these activities.

¹¹ SWIP has a small number of institutional clients within the United States, none of which currently hold LBG Ordinary Shares or LBG ADSs or any derivatives thereof within their portfolios. SWIP does not anticipate that any of its current institutional clients in the United States will invest directly in LBG Ordinary Shares or LBG ADSs or any derivatives thereof through portfolios managed by SWIP. SWIP does not intend to solicit additional institutional clients in the United States except in the ordinary course of business and not in contemplation of the Placing.

¹² The LBG Asset Managers have a small number of clients within the United States. The LBG Asset Managers will only engage in unsolicited asset management activities in the ordinary course of business and not in contemplation of the Placing.

Trading by Insurance Companies. The LBG Insurance Companies make investments in funds or indices that may include LBG Ordinary Shares and LBG ADSs in connection with investing premiums paid by their customers for certain policies. The LBG Insurance Companies conduct these activities solely outside of the United States.

Under UK law, the LBG Insurance Companies have a fiduciary or similar duty to the purchasers of such policies to oversee the investments with respect to those policies in a manner that is in the best interests of those purchasers. Accordingly, the LBG Insurance Companies would be prohibited by law from following, with respect to certain of their policies, a discretionary LBG directive to cease trading in funds or indices that included LBG Ordinary Shares or LBG ADSs during the Restricted Period, unless such a halt in trading were in the best interests of the purchasers of those policies. Similarly, the LBG Insurance Companies would be prohibited by law from following a discretionary LBG directive to trade in funds or indices that included LBG Ordinary Shares or LBG ADSs unless the LBG Insurance Companies independently concluded that such bids or purchases were in the best interests of its insureds under such policies.

The LBG Insurance Companies engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing.

Trading by Trustees and Personal Representatives of Estates. The LBG Trustees and Personal Representatives administer the LBG Trusts and Estates, including through the investment of their assets. The LBG Trustees and Personal Representatives generally have broad investment discretion over the assets, similar to the discretion of the LBG Asset Managers with respect to the LBG Managed Funds and, as with those LBG Asset Managers, they have fiduciary or similar duties under applicable local laws to oversee the LBG Trusts and Estates in a manner that is in the best interests of their beneficiaries.

The LBG Trustees and Personal Representatives engage in the trading of LBG Ordinary Shares and LBG ADSs solely in the ordinary course of business and not in contemplation of the Placing. The activities of the LBG Trustees and Personal Representatives historically have represented a small proportion of all trading in LBG Ordinary Shares, and for the twelve-month period ended June 30, 2013, the ADTV of LBG Ordinary Shares (including LBG ADSs) traded pursuant to these activities represented less than 0.1% of the worldwide ADTV of LBG Ordinary Shares (including LBG ADSs). The market activities of the LBG Trustees and Personal Representatives are conducted solely outside of the United States.

Collateral Taking. The LBG Collateral Taking Units accept various forms of security, including LBG Ordinary Shares and LBG ADSs, as collateral for loans made by those units. These loans are generally made either in connection with margin trading or as part of LBG retail and commercial banking activities. In the event that a borrower defaults on a loan, the LBG Collateral Taking Units may foreclose on the collateral and, in some circumstances, dispose of it, including by selling it in the market. To the extent the LBG Collateral Taking Units engage in the trading of LBG Ordinary Shares or LBG ADSs, this activity would be solely in the ordinary

course of business and not in contemplation of the Placing. These market activities are conducted predominantly within the United Kingdom.¹³

Banking Related Activities. The LBG Banking Groups provide a number of banking services to retail and commercial customers. These services include the marketing and sale to banking customers of investment products which may include LBG Ordinary Shares or LBG ADSs, including investments in funds such as unit trusts and open-ended investment companies. In addition, the LBG Banking Groups provide a range of banking services, investment advice and financial planning guidance to banking customers, and this advice and guidance may include information which would assist customers in determining whether to purchase or sell LBG Ordinary Shares or LBG ADSs or investment products that may include LBG Ordinary Shares or LBG ADSs or baskets or indices including LBG Ordinary Shares or LBG ADSs. Some of these funds are managed by LBG affiliates who are LBG Asset Managers, while others are managed by third-party fund managers. Most funds marketed and sold by the LBG Banking Groups comply with the requirements set forth in the European Union's Council Directive 85/61 /EEC, commonly known as the "UCITS Directive". The UCITS Directive provides, among other things, that no security included in a fund may represent more than 5% of the fund's assets (although Member States may raise this limit to 10%; *provided* that, securities which represent more than 5% of the fund's assets do not in the aggregate represent more than 40% of the fund's assets). A limited number of funds are "Non-UCITS Retail Schemes", or "NURS". NURS are subject to similar restrictions as UCITS-compliant funds, although NURS may invest up to 10% of their assets in the securities of the single issuer.

The LBG Banking Groups provide investment advice and financial planning guidance to their customers and, unlike LBG Asset Managers, the LBG Banking Groups are not necessarily bound by fiduciary or similar duties or specific contractual obligations in giving this advice and guidance. However, LBG's wealth management and financial advisory divisions have enacted internal policies and procedures which prohibit them from making a recommendation to customers as to whether they should purchase or sell LBG Ordinary Shares or LBG ADSs. The LBG Banking Groups provide only objective information about LBG Ordinary Shares and LBG ADSs and/or a summary of the views of a fixed group of research analysts who publish information about LBG.

The LBG Banking Groups engage in the foregoing activities solely in the ordinary course of business and not in contemplation of the Placing. These activities are conducted predominantly in the United Kingdom and outside the United States.¹⁴ The purchase and sale of LBG Ordinary Shares or LBG ADSs which may be deemed to result from the LBG Banking Group's market activities may occur on any of a number of exchanges or in over-the-counter transactions around the world.

¹³ Although collateral taking activities have not been historically conducted by the LBG Collateral Taking Units in the United States, there remains a low possibility that LBG customers could pledge LBG Ordinary Shares or LBG ADSs to one of its two subsidiaries in the United States: BoS (USA), Inc., a corporation incorporated under the laws of the State of Delaware, and BoS (USA) AL, Inc., a corporation incorporated under the laws of the State of Delaware. These activities are currently in the process of being discontinued and no activity is anticipated by either BoS (USA), Inc. or BoS (USA) AL, Inc. Furthermore, certain LBG customers all of whom are non-residents of the United States could pledge LBG Ordinary Shares or LBG ADSs to Lloyds TSB Bank plc's subsidiary operation in Florida. Such activities, if they are currently occurring at all, represent a de minimus amount of activity.

¹⁴ The LBG Banking Groups have international operations and a global client base. From time to time, a client may relocate to the United States and, in this event, the LBG Banking Groups either exit the particular client relationship or transfer it to Lloyds TSB Offshore Private Clients Limited or another LBG entity regulated in the United States as described herein. Furthermore, Lloyds TSB Bank plc conducts banking related activities for clients who are non-residents of the United States via its subsidiary operation in Florida. Such banking related activities in the United States historically have represented a very small proportion of all trading in LBG Ordinary Shares, and LBG believes these activities will not have a significant effect on the market price of LBG Ordinary Shares.

Trading Pursuant to Lloyds Banking Group Share Plans. Eligible employees who are resident in the United Kingdom are eligible to participate in the Lloyds Banking Group Share Incentive Plan¹⁵. Participation allows an employee to receive LBG Ordinary Shares: (i) in exchange for a portion of the employee's monthly salary; (ii) as awards; or (iii) in exchange for dividend payments on LBG Ordinary Shares received pursuant to (i) or (ii). In order to effect the acquisition of LBG Ordinary Shares for participating employees pursuant to the rules of the Lloyds Banking Group Share Incentive Plan, the Lloyds Banking Group Share Incentive Plan Trustees purchase LBG Ordinary Shares in the secondary market. At the request of an employee under certain circumstances, or in order to satisfy a participating employee's tax liability under the Lloyds Banking Group Share Incentive Plan, the Lloyds Banking Group Share Incentive Plan Trustees may also sell LBG Ordinary Shares in the employee's account.

In addition, the ESOT Trustee purchases and/or subscribes for LBG Ordinary Shares for delivery to LBG employees participating in the Lloyds Banking Group Employee Share Plans in accordance with the rules of such plans and at the recommendation or request of LBG. Under the terms of the Lloyds Banking Group Employee Share Plans, and the ESOT, the ESOT Trustee may acquire, hold and dispose of any property to be held under the ESOT (including LBG Ordinary Shares) and enter into any contract or incur any obligation in respect of such property. The rules of the Lloyds Banking Group Employee Share Plans and the ESOT also allow the ESOT Trustee to withhold and sell, on behalf of an employee participating in any of the Lloyds Banking Group Employee Share Plans, LBG Ordinary Shares required to satisfy any tax liability arising on receipt of LBG Ordinary Shares under the Lloyds Banking Group Employee Share Plans.

Both sets of trustees have fiduciary or similar duties under applicable local laws (including the laws of the United Kingdom and Jersey) to conduct their market activities in a manner that is in the best interests of the employees participating in the Lloyds Banking Group Share Incentive Plan and Lloyds Banking Employee Share Plans.

Both sets of trustees engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing. These market activities are conducted solely outside of the United States and predominantly in the United Kingdom or Jersey as appropriate, either through the facilities of the LSE, in over-the-counter transactions or by direct issuance from LBG.

Unsolicited Brokerage Activities. The LBG Brokerage Units effect unsolicited brokerage transactions in LBG Ordinary Shares on the LSE, including through Talos, by placing orders on behalf of their respective customer bases. These transactions arise from unsolicited buy and sell orders received by the LBG Brokerage Units from their respective customer bases. The unsolicited brokerage activities of the LBG Brokerage Units are conducted solely outside of the United States and predominantly in the United Kingdom through the facilities of the LSE and amounted to less than 2% of the worldwide ADTV in LBG Ordinary Shares (including LBG ADSs) during the twelve-month period ended June 30, 2013.¹⁶ The LBG Brokerage Units engage in their market activities solely in the ordinary course of business and not in contemplation of the Placing. Please note that Talos does not currently engage and does not intend in the future to engage in derivatives market making, hedging, asset management or insurance activities on behalf of LBG and its affiliates.

¹⁵ The Lloyds TSB Shareplan has been renamed the Lloyds Banking Group Employee Share Incentive Plan and is now offered to all eligible group employees.

¹⁶ The LBG Brokerage Units have international operations and a global client base. From time to time, a client may relocate to the United States and, in this event, the LBG Brokerage Units either exit the particular client relationship or permanently restrict activity in such accounts.

LBG maintains and enforces written "Chinese Wall" policies and procedures to prevent material non-public information from passing between the sales/trading areas and any other areas of LBG in which price-sensitive information relating to LBG Ordinary Shares or LBG ADSs, including information relating to the Placing, would be available. Accordingly, during restricted periods prior to announcements of earnings results or other material developments that have not yet become public, all ordinary course market activities of LBG are permitted to continue. Under these policies and procedures, LBG's traders and sales force who conduct these market activities will generally be able to continue doing so during and outside these restricted periods, although senior management may restrict such activities in extraordinary circumstances. Furthermore, as UKFI will initiate the decision to commence the Placing, there will be another barrier of information between the sales/trading areas of LBG and any price sensitive information about the Placing. LBG will continue to maintain and enforce these policies and procedures during the Placing.

Other affiliates of LBG conduct market activities in LBG Ordinary Shares and LBG ADSs in the ordinary course of their business. In connection with the Placing, these other affiliates will comply with Regulation M, either by suspending their market activities during the restricted period or by conducting those activities in accordance with an available exception from Regulation M. These exceptions may include those available for "affiliated purchasers." Accordingly, LBG is not seeking relief from the Staff for these activities.

3 The Placing

The Placing is one component in UKFI and HM Treasury's announced intention to divest HM Treasury's holding in LBG.

The Placing would be conducted in accordance with applicable exemptions from the registration requirement of the Securities Act of 1933 (the "Securities Act"). These will include Regulation S under the Securities Act ("Regulation S"). The Placing will be a private placement of securities to institutional investors, including to QIBs as defined under Rule 144A. The Placing Price will be determined by way of an accelerated bookbuilding process. The Placing is expected to comprise 4,282,034,109 of LBG's ordinary shares, representing approximately 6% of the issued ordinary capital of LBG. As a result of the Placing, the overall size of HM Treasury's shareholding in the LBG will be reduced from approximately 38.7% to approximately 32.7%.

4 Application of Regulation M

In connection with the Placing, UKFI, on behalf of HM Treasury, will offer and sell LBG Ordinary Shares to investors inside and outside the United States and may therefore be engaged in a distribution for purposes of Regulation M. LBG is an affiliate of UKFI, by virtue of UKFI's holding 38.7% of the LBG Ordinary Shares. Furthermore, given the circumstances around the Placing, LBG may be deemed to be an affiliated purchaser as defined in Regulation M in respect of the Placing.

Given that UKFI will be considered a "selling shareholder" and LBG and its subsidiaries may be considered "affiliated purchasers" of the selling shareholder, as defined in Rule 100 of Regulation M, their market

activities would then be subject to Rule 102 throughout the Restricted Period. As such, we request relief for the market activities of LBG and its respective affiliates described in this letter under Rule 102.¹⁷

Under Rule 102, LBG would not be permitted to bid for or purchase, or attempt to induce any person to bid for or purchase, LBG Ordinary Shares or LBG ADSs during the Restricted Period, except to the extent that one of the specified exceptions in the rule is available. There are no exceptions available under Rule 102 that would permit LBG and its affiliated purchasers to engage in the derivatives transactions, hedging, asset management, insurance, trustee and personal estate representative, collateral taking, banking related, employee share plan purchasing and unsolicited brokerage activities with respect to LBG Ordinary Shares and LBG ADSs as described in this letter. Therefore, without the requested exemptive relief, LBG and its affiliates would not be permitted to engage in such activities for a period of time.

LBG believes that the continuation of these activities will not have a significant effect on the market price of the LBG Ordinary Shares or LBG ADSs. The withdrawal from the market of the LBG Ordinary Shares, which are among the most actively traded in the United Kingdom, and LBG ADSs for a period of time would have harmful effects on the customers of LBG and the ordinary business of LBG and its affiliates.

If the LBG Derivatives Business Units are precluded from conducting derivatives transactions¹⁸ or from effecting hedging transactions in LBG Ordinary Shares or LBG ADSs relating to the derivatives, the application of Regulation M could have adverse effects on LBG's ability to manage all relevant derivative positions, including hedging activities, maintained by it and its customers previously established in the ordinary course of business in connection with this activity. The LBG Asset Managers may also be unable to execute asset management related orders, and the LBG Brokerage Units may also be unable to execute unsolicited brokerage orders submitted by their respective customers in the normal course, thereby significantly increasing the risk profile of LBG's and its affiliates' clients' investment portfolios, limiting LBG's and its affiliates' ability to act in the best interests of their respective clients including, in the case of the LBG Asset Managers, carry out their fiduciary or similar duties and which may result in a significant loss of business for LBG. Similarly, the LBG Insurance Companies may not refrain from, or engage in, trading in LBG Ordinary Shares or LBG ADSs as a result of investment instructions received from LBG, unless such action is in the best interests of the purchasers of those policies.

Additionally, the LBG Trustees and Personal Representatives have fiduciary or similar duties under applicable local law to invest the assets of the LBG Trusts and Estates in the best interests of their beneficiaries. Accordingly, the LBG Trustees and Personal Representatives would be prohibited by law from trading in LBG Ordinary Shares or LBG ADSs unless the LBG Trustees and Personal Representatives believed that such trading was in the best interests of the beneficiaries of the LBG Trusts and Estates.

¹⁷ We note that the LBG Ordinary Shares would qualify as actively-traded securities pursuant to Regulation M, and therefore "distribution participants" (as defined in Rule 100 of Regulation M), subject to Rule 101 rather than Rule 102, would be able to avail themselves of the exception for actively-traded securities. The worldwide ADTV value for LBG Ordinary Shares was approximately £155 million, or \$243 million, for the twelve-month period ended June 30, 2013, and the public float value for LBG Ordinary Shares was £42.8 billion, or \$68.5 billion, as of June 30, 2013, in each case well in excess of the thresholds set out in Regulation M to qualify as an actively-traded security.

¹⁸ Derivatives on LBG Ordinary Shares generally would not be "covered securities" under Rule 100 of Regulation M. See, e.g., Release 34-38067 (Jan. 3, 1997), 62 FR 520, 524. Derivative market making by LBG affiliates, however, might, in some cases, be regarded as involving inducements to purchase LBG Ordinary Shares. To avoid uncertainty, the activities covered by this request for exemption include the derivatives hedging and other activities in LBG Ordinary Shares described in this letter.

The activities of the LBG Collateral Taking Units do not constitute bids for, purchases of or inducements to make bids for or purchases of LBG Ordinary Shares or LBG ADSs (or reference securities with respect thereto) in the traditional sense. Nevertheless, LBG believes that in some circumstances the activities of the LBG Collateral Taking Units may be deemed to be attempts to induce a bid or purchase because the LBG Collateral Taking Units may foreclose on collateral that includes LBG Ordinary Shares or LBG ADSs and dispose of it, including by selling it in the market. LBG therefore seeks exemptive relief in order to continue to conduct these activities in the ordinary course of business during the Restricted Period. It would place a significant burden on customers if borrowers could not pledge their LBG Ordinary Shares or LBG ADSs to the LBG Collateral Taking Units and the borrowers would be burdened with finding either other assets to pledge or other sources of debt. Because the LBG Collateral Taking Units would only sell LBG Ordinary Shares or LBG ADSs following a default by the borrower, LBG believes that it is unlikely that the activities of the LBG Collateral Taking Units would have a significant effect on the market price of LBG Ordinary Shares or LBG ADSs.

LBG also believes that the normal course marketing and sale by the LBG Banking Groups of funds that may include LBG Ordinary Shares or LBG ADSs is unlikely to have a significant effect on the market price of LBG Ordinary Shares or LBG ADSs. Moreover, the normal course financial planning and investment advisory activities of the LBG Banking Groups do not constitute bids for or purchases of LBG Ordinary Shares or LBG ADSs, and LBG believes that it is unlikely that such activities would constitute inducements to purchase LBG Ordinary Shares or LBG ADSs. If these activities did constitute inducements to purchase LBG Ordinary Shares or LBG ADSs, LBG believes that the policies and procedures which prohibit it and, in turn any of its shareholders, including HM Treasury, from recommending the purchase or sale of LBG Ordinary Shares or LBG ADSs are sufficient to preclude such activities from having a significant effect on the market price of LBG Ordinary Shares or LBG ADSs.

Purchases of LBG Ordinary Shares by the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees in the ordinary course of business are intended only to facilitate the grant of awards and options pursuant to the terms of the Lloyds Banking Group Share Incentive Plan and the ESOT, respectively. If the Lloyds Banking Group Share Incentive Plan and the ESOT were structured to allow LBG to award LBG Ordinary Shares directly to participating employees, rather than having the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees purchase the LBG Ordinary Shares on the employees' behalf, these purchases would not be prohibited by Rule 102. Moreover, the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees are bound by fiduciary or similar duties to conduct their activities in the best interests of the employees participating in the Lloyds Banking Group Share Incentive Plan and the ESOT. As noted previously, the activities of the Lloyds Banking Group Share Incentive Plan Trustee and the ESOT Trustees historically have represented a small proportion of all trading in LBG Ordinary Shares, and LBG believes that these activities will not have a significant effect on the market price of LBG Ordinary Shares or LBG ADSs.

The ordinary course derivatives transactions, hedging, asset management, insurance, trustee and personal estate representative, collateral taking, banking related, employee share plan purchasing and unsolicited brokerage activities of LBG with respect to LBG Ordinary Shares and LBG ADSs described in this letter are also important aspects of LBG's business as a major financial institution in the United Kingdom and, therefore, interrupting those activities for such a period could also have an adverse impact on LBG's business, including its ability to properly manage its risks.

In addition, the Placing is being conducted and trading by the business groups and affiliates of LBG identified herein in LBG Ordinary Shares and LBG ADSs during the Placing is subject to, and will be conducted in accordance with, the laws of the United Kingdom and other laws. As discussed in greater detail below, the laws of the United Kingdom provide important safeguards against the type of risk of abuse that Regulation M was designed to prevent.

Furthermore, LBG's relationship with UKFI/HM Treasury is conducted on an arms length basis, whereby UKFI, as the entity managing HM Treasury's shareholding, is treated in the same manner as any other shareholder of LBG. Neither UKFI nor HM Treasury has any representation on LBG's board of directors and does not participate in any LBG or Group director or executive officer meetings and is not a member of any committees established by the LBG board of directors. Additionally, neither UKFI nor HM Treasury has any involvement in the day to day running of LBG's business. LBG has no employees that are also employees of HM Treasury or UKFI. HM Treasury and UKFI have no direct influence in the activities of LBG and its subsidiaries in relation to the dealings in securities, including dealings in LBG's securities or any relevant reference securities.

Finally, LBG believes that the risk of market manipulation under the Placing is limited because (i) all decisions (including the decisions around timing, pricing and sale) related to the Placing will be made by UKFI and HM Treasury and LBG will only become aware of them after-the-fact, (ii) the existence of the "Chinese Wall" procedures and duties described above, (iii) the fact that the market activities that are the subject of this request for exemptive relief are the ordinary course customer-driven market activities of LBG rather than activities commenced or managed in contemplation of the Placing, and (iv) the fact that the jurisdictions in which LBG operates have laws that prohibit market manipulation (as further discussed below).

For the foregoing reasons, LBG asks the Staff to provide an exemption from Regulation M that would allow LBG, through its business groups and affiliates identified herein, to continue to engage in the derivatives transactions, hedging, asset management, insurance, trustee and personal estate representative, collateral taking, banking related, employee share plan purchasing and unsolicited brokerage activities with respect to LBG Ordinary Shares and LBG ADSs in the ordinary course of their respective businesses described above during the Restricted Period, as permitted under market practice and applicable law in the United Kingdom.¹⁹

5 The Regulatory Market in the United Kingdom

The FSMA contains the main body of rules relating to the financial markets in the United Kingdom. The PRA and FCA are independent bodies that regulate the financial services industry in the United Kingdom. The FCA is responsible for market supervision and has a powerful enforcement armory, including powers to investigate, publish information, censure, suspend the marketing of securities and, above all, impose unlimited fines on both companies and individuals who have engaged in market abuse or required or encouraged another person to do so. Part VIII of the FSMA gives the FCA power to impose penalties upon any person who has engaged in market abuse or has required or encouraged another person to do so. Behavior caught by the

¹⁹ As described above, the vast majority of the market activities in LBG Ordinary Shares for which relief is sought in this letter are conducted on the LSE, European trade reporting systems and the over-the-counter market in the United Kingdom. Although similar activities are carried out by the business units and affiliates of LBG described in this letter outside of the United Kingdom, the volume of such activities has historically been low compared to the volume of such activities in the United Kingdom. We also note that, during the twelve-month period ended June 30, 2013, total market activity in LBG Ordinary Shares outside of the United Kingdom was approximately 2.2% of worldwide ADTV. We ask that the requested relief also cover such activities outside of the United Kingdom and the United States conducted in the ordinary course and in accordance with applicable local law.

market abuse regime falls into categories such as dealing on the basis of inside information or disseminating misleading information.

Part V of the Criminal Justice Act 1993 prohibits insider dealing. There are three offenses: (i) dealing, (ii) encouraging another person to deal and (iii) disclosing information. These offenses can only be committed by individuals. However, any act on the part of a corporate body will almost inevitably be taken on its behalf by a director, officer or employee. In addition, the offense of encouraging can be committed if the recipient of the encouragement is a corporate body. There are also some general defenses to these offenses such as a reasonable belief that the information had been disclosed widely enough or evidence that the individual would have acted in the same manner even without the information.

However, the principal source of law relating to market manipulation in the United Kingdom is the Market Abuse Directive (the "**Directive**"), as implemented by the FSMA. Section 118 of the FSMA specifies five types of behavior that are considered to be market abuse:

- (i) insider dealing – where an "insider" (as defined below) deals or attempts to deal in securities on the basis of "inside information" (as defined below);
- (ii) improper disclosure – where an insider discloses inside information to someone else other than in the proper performance of their employment, profession or duties;
- (iii) manipulating transactions – where a transaction gives a false or misleading impression to the market of the supply, demand, price or value of a security or secures the price of a security at an artificial level (unless the transaction is carried out for a legitimate reason and in conformity with an "accepted market practice");
- (iv) manipulating devices – effecting transactions which employ a fictitious device or other form of deception or contrivance; and
- (v) misleading dissemination – where false or misleading information is knowingly or negligently disseminated to the market.

In addition, there are two residual categories that cover types of behavior not caught by one of the above categories but which involve either:

- (i) the misuse of relevant information that is not generally available to the market; or
- (ii) other forms of misleading behavior or market distortion,

in each case, that a regular user of the market in question would consider to be a failure to observe reasonable standards of behavior.

In relation to qualifying investments, "inside information" is defined in FSMA as information of a precise nature which is not generally available but which relates, directly or indirectly, to one or more issuers of the qualifying investments or to one or more of the qualifying investments and would, if generally available, be likely to have a significant effect on the price of, *inter alia*, the qualifying investments. Information is deemed likely to have a significant effect on price "if and only if it is information of a kind which a reasonable investor would use as part of the basis for his investment decisions".

An "insider" is, *inter alia*, a person who has inside information as a result of: (i) membership of the administrative, management or supervisory board of a company that has securities admitted to trading; (ii)

holding securities in such a company; (iii) his employment, profession or duties; (iv) any criminal activities; or (v) other means, but where he knows, or could reasonably be expected to know, that he holds inside information.

Two safe harbors are expressly provided under the Directive for: (i) price-stabilizing activities and (ii) repurchases of one's own shares.

In addition, the Code of Market Conduct published by the FCA sets out conclusive descriptions of types of behavior that will not amount to market abuse. These include:

- (i) dealing with the benefit of trading information, for example, where the inside information one holds is the knowledge that one is planning to deal;
- (ii) dealing in pursuit of the legitimate business of market makers on their own account;
- (iii) the dutiful carrying out of an order on behalf of another;
- (iv) takeover activity, including stake-building, the seeking of irrevocable undertakings and the making of arrangements to issue securities or offer cash as part of a takeover offer;
- (v) disclosure of inside information if, *inter alia*, it is made to a government department, the Bank of England, the Takeover Panel or any other regulatory authority for the purpose of fulfilling a legal or regulatory objection or otherwise in connection with the functions of that body; and
- (vi) behavior conforming with certain express provisions of the City Code on Takeovers and Mergers (the "Code"), provided that, the behavior also conforms with the General Principles under the Code.

6 Relief Requested

As discussed above, LBG is seeking exemptive relief from Rule 102 to permit the LBG Derivatives Business Units, the LBG Asset Managers (including SWIP and Lloyds TSB Offshore Private Clients Limited, which conduct certain asset management activities in the United States), the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, the Lloyds Banking Group Share Incentive Plan Trustee, the ESOT Trustees and the LBG Brokerage Units to continue to engage in the derivatives transactions, hedging, asset management, insurance, trustee and personal estate representative, collateral taking, banking related, employee share plan purchasing and unsolicited brokerage activities with respect to LBG Ordinary Shares and LBG ADSs described in this letter during the Restricted Period. The LBG Derivatives Business Units, the LBG Asset Managers, the LBG Insurance Companies, the LBG Trustees and Personal Representatives, the LBG Collateral Taking Units, the LBG Banking Groups, the Lloyds Banking Group Share Incentive Plan Trustee, the ESOT Trustees, and the LBG Brokerage Units would conduct these activities in the ordinary course of their respective businesses and in accordance with the applicable laws of the United Kingdom in relation to the Placing and other laws, all as described in this letter.

As a condition to the relief being requested, LBG will undertake to keep records (the "Records") of the date and time when any LBG Ordinary Shares or LBG ADSs are purchased or sold, the market in which the purchase or sale is effected, the amount of LBG Ordinary Shares or LBG ADSs purchased or sold and the price of the purchase or sale, for each purchase or sale of LBG Ordinary Shares or LBG ADSs made during the Restricted Period. LBG will maintain Records for a period of two years following the completion of the

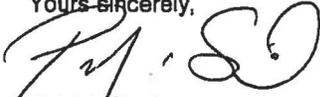
Placing. Upon the written request of the Director of the Division of Trading and Markets of the Commission, LBG will make a copy of the relevant Records available at the Commission's offices in Washington, D.C.

In connection with the relief requested by LBG in this letter, please note that the Commission has granted similar exemptive relief from Regulation M to LBG (formerly Lloyds TSB Group plc) under the exemptive letters dated November 2, 2009, April 20, 2009 and October 21, 2008; to Barclays PLC under the exemptive letters dated July 31, 2013, June 16, 2008, August 7, 2007 and August 2, 2007; to Bank of Ireland under the exemptive letters dated June 7, 2011 and April 22, 2010; to Bank of Montreal under the exemptive letter dated April 8, 2011; to Sumitomo Mitsui Financial Group under the exemptive letter dated February 7, 2011; to Banco Bilbao Vizcaya Argentaria, S.A. under the exemptive letters dated October 28, 2010 and June 25, 2007; to Deutsche Bank Aktiengesellschaft under the exemptive letter dated September 16, 2010; to The Toronto-Dominion Bank under the exemptive letters dated August 19, 2010 and December 21, 2007; to ING under the exemptive letter dated November 19, 2009; to The Royal Bank of Scotland Group plc and ABN AMRO Holding N.V. under the exemptive letters dated February 18, 2009, October 17, 2008 and April 21, 2008; to Banco Santander, S.A. under the exemptive letters dated December 22, 2008, November 7, 2008, August 18, 2008, July 23, 2007 and September 10, 2004; to UBS AG under the exemptive letters dated May 16, 2008, April 22, 2008 and September 22, 2000; to ABN AMRO Holding N.V. under the exemptive letter dated August 7, 2007; to The Royal Bank of Scotland Group plc under the exemptive letter dated July 23, 2007; to Allianz AG under the exemptive letters dated March 23, 2007 and April 10, 2003; to Banco Intesa S.p.A. under the exemptive letter dated November 1, 2006; and to Sanpaolo IMI S.p.A. under the exemptive letter dated November 1, 2006.

* * * * *

If you have any questions about this request, please do not hesitate to contact Patrick Sheil in London at +44 20-7456-5627 or Robert Ludwig in London at +44 20-7456-5012. We appreciate your assistance in this matter.

Yours sincerely,



Patrick Sheil
Linklaters LLP

cc: Joan Collopy
Securities and Exchange Commission

Hugh Pugsley
Lloyds Banking Group plc