Lloyds Banking Group plc
Form 424B2
June 29, 2010

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek an offer to buy these securities in any jurisdiction where the offer is not permitted.

Subject to Completion
Preliminary Prospectus Supplement dated June 29, 2010

PRELIMINARY PROSPECTUS SUPPLEMENT
(to prospectus dated June 28, 2010)

Lloyds Banking Group plc

$

% Public Income NotES (PINES®) due 2050

From and including the date of issuance, interest will accrue on the PINES (also referred to as the Senior Notes) at a rate of % per annum. Interest will accrue from July , 2010. Interest will be payable quarterly in arrears on each January , April , July and October of each year, commencing on October , 2010. Unless we redeem the Senior Notes earlier, they will mature on July , 2050.

The Senior Notes will be issued in denominations of $25 and integral multiples thereof. The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking *pari passu* without any preference among themselves, with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

We may redeem the Senior Notes at 100% of their principal amount plus accrued interest, if any, in whole or in part, at any time on or after July , 2015, or in whole but not in part at any time upon the occurrence of certain tax changes described in this prospectus supplement and accompanying prospectus.

We intend to apply to list the Senior Notes on the New York Stock Exchange in accordance with its rules. If approved for listing, trading on the New York Stock Exchange is expected to commence within 30 days after the Senior Notes are first issued. The Senior Notes are expected to trade flat , meaning that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Senior Notes that is not included in the trading price.

Investing in the Senior Notes involves risks. See Risk Factors beginning on page S-3 of this prospectus supplement and in our most recent Annual Report on Form 20-F.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Senior Note	**Total(3)**
Price to the public(1)	$	$
Underwriting discounts(2)	$	$
Proceeds to us (before expenses)(3)	$	$

(1) The initial public offering price set forth above does not include accrued interest, if any. Interest on the Senior Notes will accrue from July , 2010 and must be paid by the purchaser if the Senior Notes are delivered thereafter.

(2) For sales to certain institutions, the underwriting discount will be $ per Senior Note.
(3) Assumes no exercise of over-allotment option.

The underwriters may also purchase up to an additional $ principal amount of notes from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

We expect that the Senior Notes will be ready for delivery through the book-entry facilities of The Depository Trust Company and its participants including Clearstream Banking, S.A. and Euroclear Bank S.A./NV on or about July , 2010.

PINES® is a registered service mark of Citigroup Global Markets Inc.

Joint Bookrunners

Citi *Physical Bookrunner* **BofA Merrill Lynch** **UBS Investment Bank** **Wells Fargo Securities**

Senior Co-Managers

BNP Paribas **Goldman, Sachs & Co.** **HSBC** **J.P. Morgan** **RBC Capital Markets**

Co-Managers

Deutsche Bank Securities **Lloyds TSB Corporate Markets** **RBS**

Prospectus Supplement dated June , 2010

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus (including any free writing prospectus issued or authorized by us). We have not, and the underwriters have not, authorized anyone to provide you with different information. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not making an offer of these securities in any state or jurisdiction where the offer is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates.

ABOUT THIS PROSPECTUS SUPPLEMENT

In this prospectus supplement, we use the following terms:

we, us, our and LBG mean Lloyds Banking Group plc;

Group means Lloyds Banking Group plc together with its subsidiaries;

Issuer means Lloyds Banking Group plc;

HBOS means HBOS plc;

HBOS Group means HBOS plc together with its subsidiaries;

SEC refers to the Securities and Exchange Commission;

pounds, sterling, pence, £ and p refer to the currency of the United Kingdom;

yen and ¥ refer to the currency of Japan;

dollars and $ refer to the currency of the United States; and

euro and refer to the currency of the member states of the European Union (EU) that have adopted the single currency in accordance with the treaty establishing the European Community, as amended.

INCORPORATION OF INFORMATION BY REFERENCE

The Group files annual, semiannual and special reports and other information with the Securities and Exchange Commission (the SEC). You may read and copy any document that the Group files with the SEC at the SEC s Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. You can call the SEC on 1-800-SEC-0330 for further information on the Public Reference Room. The SEC s website, at http://www.sec.gov, contains reports and other information in electronic form that we have filed. You may also request a copy of any filings referred to below (excluding exhibits) at no cost, by contacting us at 25 Gresham Street, London EC2V 7HN, England, telephone +44 207 626 1500.

The SEC allows us to incorporate by reference much of the information the Group files with them. This means:

incorporated documents are considered part of this prospectus supplement;

we can disclose important information to you by referring you to these documents; and

information that we file with the SEC will automatically update and supersede this prospectus supplement.

We also incorporate by reference in this prospectus and accompanying prospectus any future documents the Group may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement until the offering contemplated in this prospectus supplement is completed. Reports on Form 6-K the Group may furnish to the SEC after the date of this prospectus supplement (or portions thereof) are incorporated by reference in this prospectus supplement only to the extent that the report expressly states that it (or such portion) is incorporated by reference in this prospectus supplement.

FORWARD-LOOKING STATEMENTS

From time to time, we may make statements, both written and oral, regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the sections entitled Risk Factors in this prospectus supplement, Cautionary Statement on Forward-Looking Statements in the accompanying prospectus and Risk Factors , Presentation of information Forward-Looking statements and Forward-Looking Statements in our Annual Report on Form 20-F for the year ended December 31, 2009, respectively, which is incorporated by reference.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, forward-looking events discussed in this prospectus supplement or any information incorporated by reference, might not occur.

SUMMARY

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

General

Issuer	Lloyds Banking Group plc
Securities	We are offering $ aggregate principal amount of % PINES (or Senior Notes) due July , 2050.
Issue Date	July , 2010.
Maturity	If the Senior Notes are not redeemed earlier, we will repay the Senior Notes at 100% of their principal amount plus accrued interest on July , 2050.
Interest Rate	The Senior Notes will bear interest at a rate of % per annum from July , 2010 until maturity or earlier redemption.
Interest Payment Dates	Every January , April , July and October , commencing on October , 2010.
Regular Record Dates	December , March , June and September of each year immediately preceding the Interest Payment Dates on January , April , July and October , respectively.
Ranking	The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking *pari passu*, without any preference among themselves, with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.
Expected Security Ratings	The notes are expected to be assigned ratings of: A1 by Moody s Investor Service, Inc. (Moodys); A by Standard & Poor s Rating Services (S&P); and AA- by Fitch Ratings (Fitch). These ratings are not recommendations to buy, sell or hold the notes and are subject to revision or withdrawal by the rating agencies.
Redemption at Issuer Option	Lloyds Banking Group plc may redeem some or all of the Senior Notes on or after July , 2015, at any time and from time to time at a redemption price equal to 100% of the aggregate principal amount of the Senior Notes being redeemed and accrued but unpaid interest, if any, to the redemption date.

Tax Redemption	In the event of certain tax changes that require us to pay additional amounts and in other limited circumstances as described herein under *Description of the Senior Notes Tax Redemption* and *Description of Debt Securities Redemption* in the accompanying prospectus we may redeem all, but not less than all, of the Senior Notes prior to maturity at 100% of their principal amount plus accrued and unpaid interest.
Book-Entry Issuance, Settlement and Clearance	We will issue the Senior Notes in fully registered form in denominations of $25 and integral multiples in excess thereof. The Senior Notes will be represented by one or more global securities registered in the name of a nominee of DTC. You will hold beneficial interests in the Senior Notes through DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg, and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes in the accompanying prospectus. Settlement of the Senior Notes will occur through DTC in same day funds. For information on DTC s book-entry system, see *Description of Debt Securities Form of Debt Securities; Book-Entry System* in the accompanying prospectus.
Over-allotment Option	The Underwriters may purchase up to an additional $ principal amount of Senior Notes from Lloyds Banking Group plc at the public offering price, less the underwriting discount, within 30 days from the date of the prospectus supplement to cover over-allotments, if any.
CUSIP	
ISIN	
Common Code	
Listing and Trading	We intend to apply for the listing of the Senior Notes on the New York Stock Exchange in accordance with its rules. We expect trading to begin within 30 days after the issue date of the Senior Notes.
Trustee and Principal Paying Agent	The Bank of New York Mellon, acting through its London Office, a banking corporation duly organized and existing under the laws of the State of New York as Trustee, having its Corporate Trust Office at One Canada Square, London E14 5AL will act as the trustee and initial principal paying agent for the Senior Notes.
Form and Denomination	The Senior Notes will be in registered form. The Senior Notes will be issued in minimum denominations of $25 and integral multiples thereof.
Use of Proceeds	We intend to use the net proceeds of the offering for general corporate purposes.
Governing Law	The senior debt securities indenture, and the Senior Notes are governed by, and construed in accordance with, the laws of the State of New York.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information set out elsewhere in this Prospectus Supplement (including any documents incorporated by reference herein and in the accompanying prospectus) and reach their own views prior to making any investment decision with respect to the Senior Notes.

Set forth below are certain risk factors from our Annual Report on Form 20-F for the year ended December 31, 2009, which is incorporated by reference in the accompanying prospectus, which could have a material adverse effect on the business, operations, financial condition or prospects of LBG and cause LBG s future results to be materially different from expected results. LBG s results could also be affected by competition and other factors. The factors discussed therein should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties LBG face. LBG has described only those risks relating to their operations that they consider to be material. There may be additional risks that LBG currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above. All of these factors are contingencies which may or may not occur and LBG are not in a position to express a view on the likelihood of any such contingency occurring. Investors should note that they bear LBG s solvency risk.

Each of the risks highlighted below could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Senior Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Senior Notes or the rights of investors under the Senior Notes and, as a result, investors could lose some or all of their investment.

Business and Economic Risks

The Group s businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, such as the severe dislocation in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Group s earnings and profits and could continue to cause its earnings and profitability to decline. In addition, any credit rating downgrades of sovereigns, particularly the United Kingdom, Spain and Republic of Ireland (or a perception that downgrades may occur) may severely destabilise the markets and could have a material adverse effect on the Group s operating results, financial condition and prospects.

The Group s businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom, in which the Group s earnings are predominantly generated. Over approximately the past two and a half years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world, that began in August 2007 but substantially worsened in September 2008, triggered widespread problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK Government and other governments to inject liquidity into the financial system and to require (and participate in) recapitalization of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector has continued albeit with some easing since the second half of 2009. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. The global economy has been in a severe recession, possibly the worst since World War II, although indications are that the UK has now emerged from its 18 month recession. The widespread and severe deterioration in the UK and virtually all other economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, commodity markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, has already and could continue to reduce the level of demand for, and supply of, the Group s products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and materially and adversely impact its operating results, financial condition and prospects. While recent economic figures show a number of countries exiting recession, forecasts are that the recovery will be at a modest pace and is likely to be protracted. Any further significant deterioration in the UK and other economies in which the Group operates could have a material adverse impact on the future results of operations of the Group. Moreover, any return to economic growth may be modest and is likely to be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and UK economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

Additionally, the profitability of the Group s businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment which may continue even following a return to economic growth in the markets in which the Group operates. Significantly higher unemployment in the UK and elsewhere, reduced corporate profitability, reduced personal non-salary income levels, increased corporate insolvency rates, increased personal insolvency rates, increased tenant defaults and/or increased interest rates may reduce borrowers ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group s loans. This, in turn, would cause increased impairments in the event of default. Poor general economic conditions, lack of market liquidity and lack of transparency of asset structures have depressed asset valuations for the Group and could continue to do so if there is a further deterioration in general economic conditions.

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

In addition, the Group s businesses are subject to risks arising from the current UK macroeconomic environment, high and increasing levels of UK government debt and uncertainty around the outcome of the UK general election (including the possibility of a minority or coalition administration which may be unable to take decisive fiscal and other measures to reduce government debt levels resulting in heightened market uncertainty). Further, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the Group s operating results, financial condition and prospects. This might also include impact on the Group s own credit ratings, borrowing costs and ability to fund itself.

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

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

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

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

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

Market movements have had and will have an impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Group. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. The margins over official rates have recently reduced to historically more normal levels but volatility and increases in margins may return. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

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

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

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

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

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

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

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

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

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

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

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability. In such circumstances, the Group s valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty resulting from the current and ongoing crisis in the global financial markets, and any consequential impairments or write-downs could have a material adverse effect on the Group s operating results, financial condition and prospects.

Credit Risks

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

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

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

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

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

It should be noted that the heritage HBOS portfolio in Ireland is heavily exposed to the commercial and residential real estate sectors, which have been negatively impacted by the current economic recession, the portfolio in Australia has material exposure to real estate and leveraged lending, and in the United States there are notable exposures to sectors such as gaming and real estate which are cyclically weak and have been negatively impacted by the economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

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

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

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

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

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

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

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

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

As at 30 April 2010, the long-term credit ratings for the Company were A1 from Moody s Investors Service Limited, A from Standard & Poor s Ratings Services, AA- (AA minus) from Fitch Ratings Limited and A (high) from DBRS. As at 30 April 2010, the long-term credit ratings for Lloyds TSB Bank plc were Aa3 from Moody s Investors Service Limited, A+ (A plus) from Standard & Poor s Ratings Services, AA- (AA minus) from Fitch Ratings Limited and AA (low) from DBRS. As at 30 April 2010, the long-term credit ratings for HBOS plc were A1 from Moody s Investors Service Limited, A from Standard & Poor s Rating Services, AA- (AA minus) from Fitch Ratings Limited and AA (low) from DBRS. As at 30 April 2010, the long-term credit ratings for Bank of Scotland plc were Aa3 from Moody s Investors Service Limited, A+ (A plus) from Standard & Poor s Ratings Services, AA- (AA minus) from Fitch Ratings Limited and AA (low) from DBRS.

As at 30 April 2010, the Company also had short-term ratings of A-1 from Standard & Poor s Ratings Services and F1+ from Fitch Ratings Limited. Lloyds TSB Bank plc had short-term ratings of P-1 from Moody s Investors Service Limited, A-1 from Standard & Poor s Ratings Services, F1+ from Fitch Ratings Limited and R-1 (middle) from DBRS. HBOS plc had short-term ratings of P-1 from Moody s Investors Service Limited, A-1 from Standard & Poor s Ratings Services, F1+ from Fitch Ratings Limited and R-1 (middle) from DBRS. Bank of Scotland plc had short-term ratings of P-1 from Moody s Investors Service Limited, A-1 from Standard & Poor s Ratings Services, F1+ from Fitch Ratings Limited and R-1 (middle) from DBRS.

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

Financial Soundness Risks

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

The Group s businesses are subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Group s profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group s access to liquidity (including government and central bank funding and liquidity support) could affect the Group s ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group s solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group or to all banks which could increase the Group s cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable in the long run. The funding needs of the Group will increase to the extent that customers, including conduit vehicles of the Group, draw down under existing credit arrangements with the Group and such increases in funding needs may be material. In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets, central bank liquidity facilities (for example, Bank of England, European Central Bank and Federal Reserve Bank of New York) and the UK Government Credit Guarantee Scheme. The ability of the Group to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could affect the Group s profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

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

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

In addition, if the current difficulties in the wholesale funding markets are not resolved or central bank provision of liquidity to the financial markets is abruptly curtailed, it is likely that wholesale funding will prove even more difficult to obtain. Such liquidity constraints could affect the Group s profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group s access to these traditional sources of liquidity could have a material adverse effect on the Group s business, financial position and results of operations, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access and which, in turn, could have a material impact on the Group s solvency.

Whilst various governments, including the UK Government, and central banks have taken substantial measures to ease the crisis in liquidity, (for example, the UK Credit Guarantee Scheme), there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks, including the Group in the longer term. In addition, the availability and the terms on which any such measures will continue to be made available to the Group in the longer term are uncertain. The Group does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Group. The Group has substantially relied on the Bank of England liquidity facilities as well as the UK Government funding scheme. The Group does not expect that there will be any extension or renewal of the Special Liquidity Scheme (which was closed for new transactions in January 2009) or the Credit Guarantee Scheme (which was closed for new issuance in February 2010). Accordingly, the Group will face a refinancing concentration during 2011 and 2012 associated with the maturity of the Special Liquidity Scheme transactions and Credit Guarantee Scheme issuance undertaken by the Group prior to the closure of those schemes. While the Group expects that the impact of this refinancing concentration can be mitigated by a combination of alternative funding over the course of the next two years and reductions in the Group s net wholesale funding requirement over the same period, there can be no assurance that these mitigation efforts will be successful. Under the GAPS Withdrawal Deed, the Company has agreed to develop with the FSA a medium term funding plan aimed at reducing dependence on short term funding, to be regularly reviewed by the FSA and the Bank of England. If the Group s funding plan is not successful in mitigating the impact of this refinancing concentration in 2011, the Group could at that time face serious liquidity constraints, which would have a material adverse impact on its solvency.

At the time of the acquisition of HBOS, the HBOS Group had a funding profile that involved the need to refinance a higher volume of maturing wholesale funding than that of heritage Lloyds TSB. As this continues to be the case, the funding profile of the Group involves substantially higher refinancing risk than the funding profile of heritage Lloyds TSB on a stand-alone basis. The Group will also continue to be dependent on its credit ratings in order to be able to attract wholesale investors into its debt issuance programmes; should the ratings fall, the cost of refinancing will increase and it may not be possible to refinance borrowings as they mature on favourable terms. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group s profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

The Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the Group s results of operations, financial condition and prospects.

Against the backdrop of the lack of liquidity and the recent high cost of funds relative to official rates in the interbank lending market, which was unprecedented in recent history, the Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Group interacts on a daily basis, all of which could have an adverse effect on the Group s ability to raise new funding.

The Group routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration. The Group is exposed to counterparty risk as a result of recent financial institution failures and nationalisations and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material and adverse effect on the Group s results of operations, financial condition and prospects.

The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.

The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. Currently, the Group meets and exceeds its regulatory capital requirements. The Group expects to continue to meet both its regulatory capital requirements and the additional capital requirements imposed by the FSA Stress Test. However, the FSA could apply increasingly stringent stress case scenarios in determining the required capital ratios for the Group and other banks, increase the minimum regulatory requirements imposed on the Group, introduce liquidity restrictions, introduce new ratios and/or change the manner in which it applies existing regulatory requirements to recapitalised banks including those within the Group. Specifically, in relation to the consultation papers issued by the Basel Committee on Banking Supervision (Strengthening the resilience of the banking sector and International framework for liquidity risk measurement, standards and monitoring), the Group is participating in the industry-wide consultation and calibration exercises taking place through 2010. In order to meet additional regulatory capital requirements, the Group may be forced to raise further capital.

Further, within the Group, the heritage Lloyds TSB and HBOS businesses may have approaches to the Basel II modelling of regulatory capital requirements which may differ according to the assumptions used. The two model methodologies are being aligned where appropriate. These models rely on a number of assumptions and changes to these assumptions and/or the methodologies adopted may result in changes to the Group s combined reported level of regulatory capital.

The Group s ability to maintain its targeted and regulatory capital ratios in the longer term could be affected by a number of factors, including net synergies and implementation costs following the acquisition of HBOS, and its level of risk-weighted assets, post-tax profit and fair value adjustments. In addition to the fair value adjustments, the Group s core tier 1 capital ratio will be directly impacted by any shortfall in forecasted after-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the insurance or lending businesses). Furthermore, under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen.

If the regulatory capital requirements, liquidity restrictions or ratios applied to the Group are increased in the future, any failure of the Group to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Group s operating results, financial condition and prospects. A shortage of available capital would also affect the Group s ability to pay dividends, continue organic growth or pursue acquisitions or other strategic opportunities. In particular, changes in regulatory capital requirements imposed by the Group s regulators could cause the Group to defer the re-introduction of ordinary dividends or change its dividend policy.

The Group s life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the FSA, and the Group s life and general insurance companies outside the UK are subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad framework principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. Solvency II is still in development, but there is a risk that the final regime could increase the amount of regulatory capital the Group s life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

Risks relating to the Senior Notes

Our Senior Notes are unsecured, are effectively subordinated to our secured indebtedness and are structurally subordinated to all liabilities of our subsidiaries, including trade payables and policyholder liabilities.

Our Senior Notes are unsecured, will be effectively subordinated to all secured indebtedness we may incur, to the extent of the assets securing such indebtedness, and are structurally subordinated to all liabilities of our subsidiaries, including trade payables and policyholder liabilities. The indenture relating to our Senior Notes does not restrict our ability to incur secured indebtedness in the future. In the event of our insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, we may not have sufficient assets to pay amounts due on any or all of our Senior Notes then outstanding.

None of our subsidiaries has guaranteed or otherwise become obligated with respect to our Senior Notes. Our right to receive assets from any of our subsidiaries upon its liquidation or reorganization, and the right of a note holders to participate in those assets, is structurally subordinated to claims of that subsidiary s creditors, including trade creditors. Even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by us. Furthermore, none of our subsidiaries is under any obligation to make payments to us, and any payments to us would depend on the earnings or financial condition of our subsidiaries and various business considerations. Statutory, contractual or other restrictions may also limit our subsidiaries ability to pay dividends or make distributions, loans or advances to us. For these reasons, we may not have access to any assets or cash flows of our subsidiaries to make payments on our Senior Notes.

An active trading market may not develop for the Senior Notes.

Prior to the offering, there was no existing trading market for the Senior Notes. We intend to apply for listing of the Senior Notes on the New York Stock Exchange. If, however, an active trading market does not develop or is not maintained, the market price and liquidity of the Senior Notes may be adversely affected. In that case, holders of the Senior Notes may not be able to sell Senior Notes at a particular time or may not be able to sell Senior Notes at a favorable price. The liquidity of any market for the Senior Notes will depend on a number of factors including:

- the number of holders of the Senior Notes;
- our ratings published by major credit rating agencies;
- our financial performance;
- the market for similar securities;
- the interest of securities dealers in making a market in the notes; and
- prevailing interest rates.

We cannot assure you that an active market for the notes will develop or, if developed, that it will continue.

Our credit ratings may not reflect all risks of an investment in the Senior Notes.

LBG s credit ratings may not reflect the potential impact of all risks related to the market values of the Senior Notes. However, real or anticipated changes in our credit ratings will generally affect the market values of the Senior Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

We may redeem the Senior Notes at any time for certain tax reasons. More generally, we may redeem the Senior Notes at our option on or after July , 2015.

We may redeem the Senior Notes in whole or in part at any time falling on or after July , 2015 at 100% of their principal amount together with any accrued but unpaid interest to the date of redemption. We may also redeem the Senior Notes at any time in whole (but not in part) upon the occurrence of certain tax changes as described in this prospectus supplement and accompanying prospectus.

RECENT DEVELOPMENTS

The UK s new coalition government put forward proposals in June 2010 which will significantly change the regulatory architecture in the UK, conferring responsibility for prudential regulation on a subsidiary of the Bank of England, and creating a new consumer protection and markets authority responsible for conduct of business of all financial firms. The June budget announced that a 0.07% bank levy (0.04% for 2011) will be imposed on large UK banks and foreign banks operating in the UK from 1 January 2011. The government has appointed an independent commission to review possible structural measures to reform the banking system and promote stability and competition. That commission will publish its final report by the end of September 2011, and will consider whether to force the UK s largest financial institutions to split their retail and investment banking arms, and the extent to which large banks gain competitive advantage from being perceived as too big to fail as well as the risks to the government s fiscal position resulting from its recommendations.

USE OF PROCEEDS

The net proceeds from the sale of the Senior Notes, less the underwriting compensation stated on the cover of this prospectus supplement and expenses payable by us estimated at $, are estimated to be $ ($ if the underwriters over-allotment option is exercised in full). These proceeds will be used for general corporate purposes.

CAPITALIZATION

The following table shows the Group s capitalization and indebtedness on an unaudited consolidated basis in accordance with IFRS as at March 31, 2010, as adjusted for the issuance of the Notes. In accordance with IFRS, certain preference shares are classified as debt and are included in subordinated liabilities in the table below.

	March 31 2010 £m	As adjusted for Issuance of Notes £m
Capitalization		
Equity		
Shareholders equity	45,408	
Minority interests	826	
Total equity	**46,234**	
Indebtedness		
Subordinated liabilities		
Preference shares	1,476	
Preferred securities	2,048	
Undated subordinated liabilities	4,997	
Enhanced capital notes	9,243	
Dated subordinated liabilities	17,889	
Total subordinated liabilities	**35,653**	
Debt securities		
Debt securities in issue	235,765	
Liabilities held at fair value through profit or loss (debt securities)	6,340	
Total debt securities	**242,105**	
Total indebtedness	**277,758**	
Total capitalization and indebtedness	**323,992**	

None of the indebtedness set forth above is guaranteed by persons other than members of the Group. As of March 31, 2010, all indebtedness was unsecured except for £64.9 billion of debt securities.

The information in the table above does not reflect the following changes since March 31, 2010:

1) the issuance of £750 million in subordinated indebtedness.

2) the repurchase of approximately $295 million in liquidation preference of certain non-cumulative preference shares for cash and the related issuance of approximately 216 million ordinary shares.

3) the exchange of approximately $760 million and ¥42.5 billion in subordinated debt securities for an aggregate of approximately 943 million ordinary shares.

Except as disclosed above, there has been no material change in the information set forth in the table above since March 31, 2010.