

**THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF  
ACCOUNTHOLDERS**

**€750,000,000 Fixed-to-Floating Rate Non-voting Non-cumulative Perpetual Preferred  
Securities in HBOS Capital Funding No. 3 L.P. (the "Issuer") issued on 23 May 2006 (the  
"Preferred Securities")**

**(ISIN: XS0255242769)**

Pursuant to clause 17.4 of and paragraph 8.3 to Schedule 3 of the Limited Partnership Agreement, HBOS Capital Funding (Jersey) Limited hereby gives notice that, conditional only upon the receipt by Citivic Nominees Limited of a direction from a simple majority in liquidation preference of the Beneficial Owners of the Preferred Securities, the €39,477,000 in liquidation preference of Preferred Securities which are outstanding but not beneficially owned by LBG Capital No. 1 plc on 29 January 2010 (the "**Redemption Date**") shall be redeemed and cancelled by the Issuer on the Redemption Date for an amount of €730 per €1,000 in liquidation preference of the Preferred Securities together with accrued but unpaid interest up to (but excluding) the Redemption Date.

By delivering an instruction in the form and manner required by the relevant Clearing System or otherwise a Beneficial Owner shall be deemed to:

- (i) consent to, and to have issued an irrevocable direction to each of HBOS Capital Funding (Jersey) Limited and Citivic Nominees Limited to consent to, concur in and without further notice to any person, effect a partial redemption of the Preferred Securities by the amendment of the Limited Partnership Agreement by the insertion into the terms and conditions of the Preferred Securities of a new paragraph 4.2A which states:

"Notwithstanding anything to the contrary in this Agreement, such Preferred Securities as are outstanding but not beneficially owned by LBG Capital No.1 plc (the "**Minority Outstanding Preferred Securities**") on 29 January 2010 (the "**Early Redemption Date**") shall be redeemed by the Issuer on the Early Redemption Date. The Issuer shall redeem and cancel such Minority Outstanding Preferred Securities accordingly by payment to the Holder of €730 per €1,000 in liquidation preference of such Minority Outstanding Preferred Securities together with all accrued but unpaid interest thereon up to (but excluding) the Early Redemption Date."

to be effected by the execution of an amendment to the terms and conditions of the Preferred Securities in the form of and as more particularly set out in the Supplemental Limited Partnership Agreement;

- (ii) acknowledge that following the execution of the Supplemental Limited Partnership Agreement, the €39,477,000 in liquidation preference of Preferred Securities which are not beneficially owned by LBG Capital No. 1 plc as at the Redemption Date shall be redeemed and cancelled in their entirety by the Issuer on the Redemption Date;
- (iii) issue an irrevocable direction to each of HBOS Capital Funding (Jersey) Limited and Citivic Nominees Limited mandating each of them to concur in, approve and/or execute all such documents, instruments, acts or things as may be necessary to effect such a partial redemption of the Preferred Securities; and
- (iv) request, require, approve and sanction the waiver of all and any potential, existing or future rights, claims, proceedings, provisions or actions which any Beneficial Owner

may have against any of the Partners under, pursuant to, or in connection with, the partial redemption referred to in this notice.

As used herein:

**“Beneficial Owner”** means a person who is the owner of an interest in the Preferred Securities as shown in the records of the Clearing Systems or its direct participants;

**“Clearing Systems”** means Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* (and each a **“Clearing System”**);

**“Limited Partnership Agreement”** means the limited partnership agreement dated 19 May 2006 between HBOS Capital Funding (Jersey) Limited, Citivic Nominees Limited, Uberior Investments plc and HBOS plc;

**“Partners”** means the partners of the Issuer, being HBOS Capital Funding (Jersey) Limited, Citivic Nominees Limited and Uberior Investments plc; and

**“Supplemental Limited Partnership Agreement”** means a supplemental limited partnership agreement modifying and amending the terms of the Limited Partnership Agreement and to be entered into in order to amend the terms and conditions of each Preferred Security in the manner set out in this notice.

HBOS Capital Funding (Jersey) Limited  
27 January 2010