



**HBOS plc**

*(incorporated with limited liability in Scotland with registered number SC218813)*

*as Issuer and Guarantor*

**Bank of Scotland plc**

*(incorporated with limited liability in Scotland with registered number SC327000 and operating in Australia as a registered foreign company with ARBN 126 955 557)*

*as Issuer and Guarantor*

**Programme for the Issuance of Debt Instruments**

This Supplement (the “**Supplement**”), to the Prospectus (the “**Prospectus**”) dated 1 May 2007 constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”) and is prepared in connection with the Programme for the issuance of debt instruments (the “**Programme**”) of HBOS plc (“**HBOS**”) and Bank of Scotland plc (“**Bank of Scotland**”) (each an “**Issuer**” and together the “**Issuers**”) and HBOS and Bank of Scotland in their capacities as guarantors (the “**Guarantors**”). Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuers.

Each of the Issuers and the Guarantors accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuers and the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Supplement has been prepared to provide information on a reorganisation of the HBOS group pursuant to the HBOS Group Reorganisation Act whereby Bank of Scotland has, as universal successor, succeeded to and assumed all of the business, assets and liabilities of Halifax plc, Capital Bank plc and HBOS Treasury Services plc (“**Treasury Services**”). Bank of Scotland has, as of 17 September 2007, assumed, *inter alia*, all existing obligations in relation to any outstanding Instruments of Treasury Services.

As a result of the afore-mentioned reorganisation, Treasury Services has ceased to be an Issuer under the Programme as of the date of this Supplement.

All references in the Prospectus to “Bank of Scotland” shall, from the date of this Supplement, be to Bank of Scotland plc.

All references in the Prospectus to Treasury Services, in its capacity as Issuer or otherwise, in the Prospectus shall be deemed to be deleted by this Supplement, except that all references to Treasury

Services, where Treasury Services is acting through its Sydney branch, shall be to Bank of Scotland plc (acting through its Australia branch). In particular:

#### **1. Conditions of the Instruments**

The Conditions of the Instruments as set out on pages 21 to 65 (inclusive) of the Prospectus are deleted and shall be replaced by the section of this Supplement entitled "Conditions of the Instruments".

#### **2. Description of Bank of Scotland and Description of Treasury Services**

The sections headed "BANK OF SCOTLAND" on pages 88 to 91 inclusive of the Prospectus and "TREASURY SERVICES" on pages 92 to 94 inclusive shall be deleted and replaced by the section of this Supplement entitled "Bank of Scotland plc".

#### **3. Description of HBOS**

The section headed "Recent Developments" on page 74 of the Prospectus shall be deleted and replaced with the following:

##### Recent Developments

On 10 August 2007 certain changes to the Board of HBOS were announced. Philip Gore-Randall joined the Board, effective 15th September 2007, as Chief Operating Officer. In addition, Mike Ellis will rejoin the Board as Group Finance Director – Designate in September 2007. This follows the decision of Phil Hodgkinson to retire as Group Finance Director in April 2008. Jo Dawson, already a member of the Board in her role as Chief Executive, Insurance & Investment, assumed responsibility for Retail Distribution (in addition to her existing responsibilities) with immediate effect. Dan Watkins, previously Group Risk Director and a member of the Executive Committee, joined the Board, effective 5th September 2007, as Chief Executive, Retail Products. Following these structural changes, Benny Higgins, formerly CEO, Retail, has decided to leave the Group.

#### **4. Summary of the Programme**

The paragraphs entitled "Issuers", "Guarantors", "HBOS Reorganisation", "Initial Programme Amount", "Accepting Deposits" and "Taxation" in the section of the Prospectus entitled "SUMMARY OF THE PROGRAMME" shall be deleted and replaced with the following:

Issuers ..... HBOS plc ("**HBOS**") and Bank of Scotland plc, acting through its Treasury Division, London Office and Australia Branch ("**Bank of Scotland**").

**HBOS** was incorporated and registered in Scotland on 3 May 2001, as a public limited company under the Companies Act 1985. HBOS is the holding company of the HBOS Group, comprising HBOS and its subsidiaries and subsidiary undertakings (including its wholly-owned subsidiary Bank of Scotland) ("**HBOS Group**"), a diversified financial services group engaged in a range of banking, insurance broking, financial services and finance-related activities for personal and medium and large size corporate customers throughout the UK and internationally. Headquartered in Edinburgh, Scotland, HBOS Group has a large and diversified customer base.

HBOS Group provides personal and business banking, savings and long term investments, mortgages, personal loans and credit cards through its Retail division. It also

provides working capital finance, term loans, asset finance, motor finance, multi-currency loans and deposits, project and specialist finance, acquisition finance and syndicated lending services to its medium and large size business clients through its Corporate division, and savings, investments and pensions products, life, household, creditors, travel and motor insurance through its Insurance & Investment division. The Treasury division provides and manages liquidity and funding requirements for HBOS Group and provides treasury services to customers of HBOS Group. HBOS Group's main overseas interests are in Australia, Ireland, Europe and North America.

**Bank of Scotland** was established as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland on 17 July 1695 and on 17 September 2007 was registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc, and is a UK clearing bank headquartered in Edinburgh. Bank of Scotland is an "authorised person" under the Financial Services and Markets Act 2000 ("**FSMA**"), supervised by the Financial Services Authority (the "**FSA**") as a bank. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland's right to issue bank notes in Scotland.

Bank of Scotland together with its subsidiaries and subsidiary undertakings are collectively referred to hereafter as "**Bank of Scotland Group**".

Bank of Scotland Group offers a range of products, including personal and small business banking and provides a full range of banking services to the corporate and business sector, including working capital finance, term loans, asset finance, multi-currency loans and syndicated lending. The Treasury division provides and manages liquidity and funding requirements for Bank of Scotland Group and provides treasury services to customers of Bank of Scotland Group.

Bank of Scotland Group operates principally within the United Kingdom, Ireland and Australia.

Guarantors .....

HBOS and Bank of Scotland on a joint and several basis in respect of Instruments issued by any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02. HBOS in respect of Instruments issued by Bank of Scotland. As a condition of the issuance of any Series of Instruments pursuant to the Programme by any Issuer other than HBOS, the relevant Guarantor(s) must execute a specific Guarantee Supplement. Instruments

which are not guaranteed may only be issued by HBOS as Issuer.

HBOS Reorganisation .....

On 21 June 2006, the HBOS Group Reorganisation Act 2006 (the "**HBOS Group Reorganisation Act**") received Royal Assent. Pursuant to the provisions of the HBOS Group Reorganisation Act, 17 September 2007, The Governor and Company of the Bank of Scotland was registered as a public limited company under the Companies Act 1985 and changed its name to Bank of Scotland plc. On the same day, Bank of Scotland plc, the continuing legal entity as universal successor has succeeded to the business, assets and liabilities of Capital Bank plc, Halifax plc and HBOS Treasury Services plc (the "Transferor Entities"). Bank of Scotland plc shall assume any existing obligations relating to the Transferor Entities (including those in relation to any outstanding Instruments of HBOS Treasury Services plc).

Initial Programme Amount .....

The total amount outstanding at any time under the Programme may not exceed U.S.\$120,000,000,000 when aggregated with issues of securities under HBOS's and Bank of Scotland's program for the issue of medium term notes into the United States, subject to any duly authorised variation. Application has been made to admit Instruments issued under the Programme up to a limit of U.S.\$120,000,000,000 during the period of twelve months from the date hereof to listing on the Official List and to trading on the Market.

Accepting deposits .....

Bank of Scotland is authorised by the FSA to accept deposits in the United Kingdom.

Unless permitted by the then current laws and regulations, Instruments which have a maturity of less than one year from the date of their issue and which are issued by HBOS (a) must have an individual redemption value of not less than £100,000 (or an amount of equivalent value denominated in a currency other than Sterling), (b) no part of any such Instrument may be transferred unless the redemption value of that part is not less than £100,000 (or such an equivalent amount) and (c) must be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses. Alternatively, such Instruments may only be issued by HBOS in other circumstances which do not constitute a contravention of Section 19 of FSMA.

Taxation ..... Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the Issuer or of the relevant Guarantor(s) and/or, where the Issuer is Bank of Scotland acting through its Australia branch, Australia and/or, if different, the country of tax residence of the relevant Issuer or of the relevant Guarantor(s) or, in each case, any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the relevant Issuer or, as the case may be, the relevant Guarantor(s) will (subject to certain exceptions) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required.

## 5. Financial Statements of Halifax plc

This Supplement and the Prospectus should be read and construed in conjunction with the audited consolidated financial statements of Halifax plc for the financial years ended 31 December 2005 and 2006, together, in each case, with the audit report thereon, which have been previously published and which have been filed with the Financial Services Authority.

## 6. United Kingdom withholding tax on United Kingdom Source Interest

Section A.1 "United Kingdom Instruments listed on a recognised stock exchange" appearing on page 96 of the Prospectus shall be deleted and replaced with the following:

"A.1

### *United Kingdom Instruments listed on a recognised stock exchange*

The Instruments issued by HBOS and Bank of Scotland (the "**UK Issuers**") which carry a right to interest ("**UK Instruments**") will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 as long as they are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. Her Majesty's Revenue and Customs ("**HMRC**") have confirmed that the London Stock Exchange has been designated as a recognised stock exchange. In the case of Instruments to be traded on the London Stock Exchange, the Instruments will be treated as "listed" on a recognised stock exchange if the Instruments are admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange. The UK Issuers' understanding of HMRC practice is that since the merger of the Australian Stock Exchange with the Sydney Futures Exchange to form the Australian Securities Exchange (the "**ASX**"), only part of the merged exchange (the part that can be recognised as the former Australian Stock Exchange) is designated as a recognised stock exchange. In the case of Instruments to be traded on that part of the ASX, the Instruments will be treated as "listed" on a recognised stock exchange if (and only if) they are admitted to trading on that part of the exchange and they are officially listed, in Australia, in accordance with provisions corresponding to those generally

applicable in European Economic Area states. Whilst the UK Instruments are and continue to be quoted Eurobonds, payments of interest on the UK Instruments may be made without withholding or deduction for or on account of United Kingdom income tax.”

## **7. Pro Forma Final Terms**

The Forms of Final Terms appearing on pages 114 to 140 shall be deleted and replaced by the sections of this Supplement entitled “PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF INSTRUMENTS WITH A DENOMINATION OF LESS THAN €50,000 TO BE ADMITTED TO TRADING ON AN EU REGULATED MARKET AND/OR OFFERED TO THE PUBLIC IN THE EUROPEAN ECONOMIC AREA” and “PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF INSTRUMENTS TO BE ADMITTED TO TRADING WITH A DENOMINATION OF AT LEAST €50,000 ON AN EU REGULATED MARKET” respectively.

## **8. General Information**

The General Information section of the Prospectus on pages 141 to 143 of the Prospectus inclusive shall be amended by the deletion of paragraphs 3, 7 and 10 and the replacement of paragraphs 11 and 13 by the following:

“11. For the period of fourteen days after the date of this document and throughout the life of the Programme, copies of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and, in respect of HBOS and Bank of Scotland, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, namely:

- the memorandum and articles of association of HBOS and the constitutive documents of Bank of Scotland;
- the Trust Deed, as amended and restated on 17 September 2007 and supplemented on 17 September 2007;
- the Amended and Restated Paying Agency Agreement dated 15 May 2006;
- the Amended and Restated Dealership Agreement dated 17 September 2007;
- the Prospectus and any supplementary prospectuses;
- the audited financial statements of the HBOS Group for the financial years ended 31 December 2005 and 31 December 2006, and each financial year and six monthly intervals thereafter in respect of which interim or audited financial statements have been prepared;
- the audited financial statements of the Bank of Scotland Group for the financial years ended 31 December 2005 and 31 December 2006, and each financial year and six monthly intervals thereafter in respect of which interim or audited financial statements have been prepared;
- the audited financial statements of Halifax plc for the financial years ended 31 December 2005 and 31 December 2006;
- any Final Terms, any Guarantee Supplement and any Drawdown Prospectus relating to Instruments which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.”

“13. The establishment of the Programme and the issuance of Instruments thereunder (and, in the case of HBOS and Bank of Scotland, the giving of their guarantee in respect of Instruments issued under the Programme, where appropriate) was authorised pursuant to resolutions of the Board of Directors of

HBOS passed on 26 March 2003, and of a duly authorised delegate of the Board of Directors of HBOS passed on 25 April 2003 and of the Board of Directors of the Bank of Scotland passed on 18 August 1992. The 2007 update of the Programme was authorised pursuant to resolutions of duly authorised committees of the Board of Directors of HBOS on 27 April 2007 and of the Bank of Scotland on 27 April 2007.”

#### **8. List of parties**

The list of parties appearing at page 144 of the Prospectus shall be amended by the deletion of the paragraph entitled “REGISTERED OFFICE OF THE ISSUERS AND HEAD OFFICE OF BANK OF SCOTLAND” and its replacement with the following:

#### **“REGISTERED OFFICE OF THE ISSUERS**

**HBOS plc**  
The Mound  
Edinburgh EH1 1YZ

**Bank of Scotland plc**  
The Mound  
Edinburgh EH1 1YZ”

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

## CONDITIONS OF THE INSTRUMENTS

*The following are the Conditions of the Instruments which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms) will be applicable to each Series of Instruments, provided that the relevant Final Terms in relation to any Series of Instruments may specify other Conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace the following Conditions for the purposes of such Series of Instruments:*

The Instruments (other than Instruments denominated in Australian dollars and issued in the Australian domestic capital markets ("**Australian Domestic Instruments**")) are constituted by a trust deed (the "**Trust Deed**", which expression shall include any amendments or supplements thereto or amendments and restatements thereof as at the date of issue of the Instruments) dated 21 August 1992 as most recently amended and restated on 1 May 2007 and as supplemented by a supplemental trust deed dated 17 September 2007, and made between HBOS plc ("**HBOS**" which expression shall include its successors) and Bank of Scotland plc (acting through its London office or Australia branch) ("**Bank of Scotland**" which expression shall include its successors), (together, the "**Issuers**" and each an "**Issuer**" which expression shall include any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02 and shall exclude any Issuer which has ceased to be an Issuer pursuant to the Trust Deed as contemplated by Condition 16.03), HBOS and ,in respect of any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02, Bank of Scotland (collectively, the "**Guarantors**" and each a "**Guarantor**") and The Law Debenture Trust Corporation p.l.c., as trustee for the holders of Instruments ("**Instrumentholders**") and Coupons ("**Couponholders**") from time to time (the "**Trustee**", which expression shall include any successor to The Law Debenture Trust Corporation p.l.c. in its capacity as such). The Instruments (other than Australian Domestic Instruments) will have the benefit of an amended and restated paying agency agreement (the "**Paying Agency Agreement**", which expression shall include any amendments or supplements thereto or amendments and restatements thereof as at the date of issue of the Instruments) dated 15 May 2006, and made between the Issuers, the Guarantors and Citibank, N.A. as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor to Citibank, N.A. in its capacity as such which is specified in the relevant Final Terms (as defined below) and shall include any principal paying agent appointed as principal paying agent in respect of a particular issue of Instruments) and, other paying agents referred to therein (the "**Paying Agents**", which expression shall, whenever the context so permits, include the Principal Paying Agent and any additional or successor paying agents duly appointed pursuant to the Paying Agency Agreement), the registrar and the transfer agents, (the "**Registrar**" and the "**Transfer Agents**") and the Trustee. References in these Conditions to "Instruments" are to the Instruments of one Series only, not to all Instruments that may be issued under the Programme. A separate agency agreement may be entered into in respect of a particular series of Instruments and all references to "**Paying Agency Agreement**" shall be construed as references to such separate agreement.

Australian Domestic Instruments will be issued in registered uncertificated (or inscribed) form. They will be constituted by a deed poll (each a "**Deed Poll**") to be executed by the relevant Issuer. The provisions of these Conditions relating to Global Instruments, Certificates, Coupons and Talons do not apply to Australian Domestic Instruments. In relation to any Australian Domestic Instruments to be issued, an Australian registry services agreement (the "**Australian Registry Services Agreement**") will be entered into between the Issuers, the Trustee and a suitable service provider as Australian registrar (the "**Australian Registrar**"), and a paying agency agreement (the "**Australian Paying Agency Agreement**") will be entered into between the Issuers and a suitable service provider as Australian paying agent (the "**Australian Paying Agent**").

Pursuant to the Trust Deed and subject to the delivery to the Trustee of a Guarantee Supplement relating to the relevant Instruments, HBOS and Bank of Scotland have agreed to jointly and severally guarantee the due and punctual payment of all amounts due by any Subsidiary (as defined in the Trust Deed) of HBOS which becomes an Issuer pursuant to the Trust Deed as contemplated in Condition 16.02 under or in respect of the Instruments and the Trust Deed as and when the same shall become due and payable (the "Guarantee"). Pursuant to the Trust Deed and subject to the delivery to the Trustee of a Guarantee Supplement relating to the relevant Instruments, HBOS has guaranteed the due and punctual payment of all amounts due by Bank of Scotland under or in respect of the Instruments and the Trust Deed as and when the same shall become due and payable (also the "Guarantee"). References to the Guarantor in these Conditions are references to the Guarantor or the Guarantors (as the case may be) of the relevant Issuer's payment obligations under or in respect of the Instruments and the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection free of charge at the principal office for the time being of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. Copies of the Deed Poll, the Australian Registry Services Agreement and the Australian Paying Agency Agreement will be available for inspection at the specified office of the Australian Registrar following the issue of any Australian Domestic Instruments. All persons from time to time entitled to the benefit of obligations under any Instruments and the Trust Deed shall be deemed to have notice of and to be bound by all of the provisions of the Trust Deed and the Paying Agency Agreement insofar as they relate to the relevant Instruments.

The Instruments will be issued in series (each a "Series") and each series may comprise one or more tranches (each a "Tranche") issued on the same or different dates. Each Series will be the subject of at least one set of final terms (the "Final Terms"), a copy of which will be available for inspection during normal business hours at the principal office for the time being of the Trustee (presently at the aforesaid address) and at the specified office of each of the Paying Agents. A copy of the Final Terms will, in the case of a Series in relation to which application has been made for admission to the Official List of the UK Listing Authority (the "Official List") and for trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market, be lodged with the Listing Applications Department of the UK Listing Authority and the London Stock Exchange.

The statements in these Conditions are subject to, and include summaries of, the provisions of the Trust Deed and the Paying Agency Agreement.

## **1 Form and Denomination**

1.01 Instruments will be issued in bearer form ("Bearer Instruments"), in registered form ("Registered Instruments") or in bearer form exchangeable for Registered Instruments ("Exchangeable Bearer Instruments"). Australian Domestic Instruments will only be Registered Instruments. This Instrument may be a Fixed Rate Instrument, a Floating Rate Instrument, a Non Interest Bearing Instrument, an Index Linked Interest Instrument, an Index Linked Redemption Instrument, an Instalment Instrument, a Dual Currency Instrument, a Partly Paid Instrument, a combination of any of the foregoing or any other kind of Instrument, depending upon the Interest and Redemption/Payment Basis shown hereon.

*All Registered Instruments (other than Australian Domestic Instruments) shall have the same Specified Denomination. Where Exchangeable Bearer Instruments are issued, the Registered Instruments for which they are exchangeable shall have the same Specified Denomination as the lowest denomination of Exchangeable Bearer Instruments.*

### **Form of Instruments**

1.02 Registered Instruments (other than Australian Domestic Instruments) are represented by registered certificates ("Certificates") and, save as provided in Condition 2.05, each Certificate shall represent the entire holding of those Registered Instruments by the same Instrumentholder.

Bearer Instruments will be represented upon issue by a temporary global instrument (a "Temporary Global Instrument") or a permanent global instrument (a "Permanent Global Instrument" which expression shall include the Permanent Global SIS Instrument as defined in the Trust Deed) in substantially the relevant form (subject to amendment and completion) scheduled to the Trust Deed. On or after the date (the "Exchange Date") which is forty days after the original issue date of the Instruments of the relevant Series and provided customary certification as to the non-U.S. beneficial ownership thereof as required by

U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument) has been received, interests in the Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument representing the Instruments of that Series; or
- (ii) if so specified in the relevant Final Terms, definitive Instruments ("Definitive Instruments") in substantially the form (subject to amendment and completion) scheduled to the Trust Deed, and such Definitive Instruments shall be serially numbered.

1.03 If any date on which a payment of interest, if any, is due on the Instruments of a Series occurs whilst any of the Instruments of that Series are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the non-U.S. beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument) has been received by Euroclear Bank SA/NV ("Euroclear") or Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") or any other relevant clearing system. Payments of principal or interest (if any) on a Permanent Global Instrument will be made through Euroclear or Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, without any requirement for certification.

1.04 Interests in a Permanent Global Instrument will be exchangeable for Definitive Instruments in whole (but not in part only), in the limited circumstances set out therein. Any exchange for Definitive Instruments made under this Condition 1.04 shall be free of charge to the Instrumentholder.

1.05 Interest-bearing Definitive Instruments will have endorsed thereon a grid for the recording of payment of interest or, in the case of Undated Instruments or if so specified in the relevant Final Terms, will have attached thereto, at the time of their initial delivery, coupons ("Coupons") presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Undated Instruments which are interest bearing will, and long dated Instruments which are interest bearing may, if so specified in the relevant Final Terms, in addition have attached thereto at the time of their initial delivery, a talon ("Talon") exchangeable for further Coupons (and, in respect of Undated Instruments or such long dated Instruments, the expression "Coupons" shall, where the context so permits, include Talons).

1.06 Instruments amounts in respect of which (other than interest) are repayable by instalments ("Instalment Instruments") which are Definitive Instruments will have endorsed thereon a grid for the recording of repayment of principal.

### ***Denomination of Instruments***

- 1.07 Instruments will be in the denomination or denominations (each of which denominations must be integrally divisible by each smaller denomination) specified in the relevant Final Terms, subject to compliance with all applicable legal or regulatory requirements.

### ***Currency of Instruments***

- 1.08 Instruments may be denominated in any currency or currencies (including, without limitation, Euro ("EUR"), Japanese yen ("¥"), Pounds Sterling ("£"), New Zealand dollars ("NZ\$"), Australian dollars ("A\$") and United States dollars ("U.S.\$")), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
- 1.09 For the purposes of these Conditions, references to Instruments shall, as the context may require, be deemed to be to Certificates, Temporary Global Instruments, Permanent Global Instruments or, as the case may be, Definitive Instruments.
- 1.10 In the case of Australian Domestic Instruments, the following provisions shall apply in lieu of the forgoing provisions of Condition 1 in the event of any inconsistency.

Australian Domestic Instruments will be debt obligations of the relevant Issuer owing under a Deed Poll and will take the form of entries in a Register to be established and maintained by the Australian Registrar in Sydney (the "Australian Register") unless otherwise agreed with the Australian Registrar. The Paying Agency Agreement is not applicable to the Australian Domestic Instruments.

Australian Domestic Instruments will not be serially numbered. Each entry in the Australian Register constitutes a separate and individual acknowledgement to the relevant Instrumentholder of the indebtedness of the Issuer to the relevant Instrumentholder. The obligations of the relevant Issuer in respect of each Australian Domestic Instrument constitute separate and independent obligations which the Instrumentholder and the Trustee are entitled to enforce in accordance with these Conditions, the Trust Deed and the Deed Poll. No certificate or other evidence of title will be issued by or on behalf of the relevant Issuer to evidence title to an Australian Domestic Instrument unless the relevant Issuer determines that certificates should be made available or it is required to do so pursuant to any applicable law or regulation.

No Australian Domestic Instrument will be registered in the name of more than four persons. Australian Domestic Instruments registered in the name of more than one person are held by those persons as joint tenants. Australian Domestic Instruments will be registered by name only, without reference to any trusteeship and an entry in the Australian Register in relation to an Australian Domestic Instrument constitutes conclusive evidence that the person so entered is the registered owner of such Instrument, subject to rectification for fraud or error.

Upon a person acquiring title to any Australian Domestic Instrument by virtue of becoming registered as the owner of that Australian Domestic Instrument, all rights and entitlements arising by virtue of the relevant Deed Poll or the Trust Deed in respect of that Australian Domestic Instrument vest absolutely in the registered owner of the Australian Domestic Instrument, such that no person who has previously been registered as the owner of the Australian Domestic Instrument has or is entitled to assert against the Issuer or the Australian Registrar or the registered owner of the Australian Domestic Instrument for the time being and from time to time any rights, benefits or entitlements in respect of the Australian Domestic Instrument.

## **2 Title and Transfer**

- 2.01 Title to Bearer Instruments and Coupons passes by delivery. Title to Registered Instruments passes by registration in the register that the relevant Issuer shall procure to be kept by the

Registrar or the Australian Registrar in accordance with the provisions of the Paying Agency Agreement or the Australian Registry Services Agreement (the "Register"). References herein to the "Instrumentholders" signify, in the case of Bearer Instruments, the bearers of such Bearer Instruments or, in the case of Registered Instruments, the person in whose name a Registered Instrument is registered. References herein to "Couponholders" signify the bearers of such Coupons. For the avoidance of doubt, where an Australian Domestic Instrument is entered into the Austraclear System, the expression "Instrumentholder" includes Austraclear Limited (ABN 94 002 060 773) ("Austraclear") as operator of the system operated by Austraclear for holding securities and the electronic recording and settling of transactions in those securities between members of that system (the "Austraclear System").

- 2.02 Subject as provided in the Trust Deed in relation to any Temporary Global Instrument or any Permanent Global Instrument, any Instrumentholder or any Couponholder will (except as otherwise required by applicable law, an order of a court of competent jurisdiction or regulatory requirement) be treated as the absolute owner thereof and of all rights thereunder for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Instrumentholder or Couponholder. No person shall have any right to enforce any term or condition of any Instruments, Coupons or Talons under the Contracts (Rights of Third Parties) Act 1999.
- 2.03 Subject as provided in Condition 2.08, Exchangeable Bearer Instruments may be exchanged for the same nominal amount of Registered Instruments (other than Australian Domestic Instruments) the request in writing of the relevant Instrumentholder and upon surrender of each Exchangeable Bearer Instrument to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided, however, that where an Exchangeable Bearer Instrument is surrendered for exchange after the Record Date (as defined in Condition 9.04) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Instruments may not be exchanged for Bearer Instruments. Bearer Instruments of one Specified Denomination may not be exchanged for Bearer Instruments of another Specified Denomination. Bearer Instruments that are not Exchangeable Bearer Instruments may not be exchanged for Registered Instruments.
- 2.04 This Condition 2.04 does not apply to Australian Domestic Instruments. One or more Registered Instruments may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Instruments to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Instruments represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Registered Instruments and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Instruments scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Instrumentholder upon request.
- 2.05 In the case of an exercise of an Issuer's or Instrumentholders' option in respect of, or a partial redemption of, a holding of Registered Instruments (other than Australian Domestic Instruments) represented by a single Certificate, a new Certificate shall be issued to the Instrumentholder to

reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Instruments (other than Australian Domestic Instruments) of the same holding having different terms, separate Certificates shall be issued in respect of those Registered Instruments of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Instruments (other than Australian Domestic Instruments) to a person who is already a holder of Registered Instruments (other than Australian Domestic Instruments), a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- 2.06 Each new Certificate to be issued pursuant to Conditions 2.03, 2.04 or 2.05 shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or exercise notice and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice (as defined in Condition 6.09) or Certificate shall have been made or, at the option of the Instrumentholder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the Instrumentholder entitled to the new Certificate to such address as may be so specified, unless such Instrumentholder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2.06, "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- 2.07 Exchange and transfer of relevant Registered Instruments and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar, the Australian Registrar, the Australian Paying Agent or the Transfer Agents (as the case may be), but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar, the Australian Registrar, the Australian Paying Agent or the relevant Transfer Agent may require).
- 2.08 No Instrumentholder may require the transfer of a Registered Instrument to be registered or an Exchangeable Bearer Instrument to be exchanged for one or more Registered Instrument(s) (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Instrument, (ii) during the period of 15 days prior to any date on which Instruments may be called for redemption by the Issuer at its option pursuant to Condition 6 below, (iii) after any such Instrument has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. An Exchangeable Bearer Instrument called for redemption may, however, be exchanged for one or more Registered Instrument(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.
- 2.09 Australian Domestic Instruments may be transferred in whole but not in part. Australian Domestic Instruments will be transferred by duly completed and (if applicable) stamped transfer and acceptance forms in the form specified by, and obtainable from, the Australian Registrar or by any other manner approved by the Issuer and the Australian Registrar. Australian Domestic Instruments entered in the Austraclear System will be transferable only in accordance with the rules and regulations known as the "Austraclear System Regulations" established by Austraclear (as amended or replaced from time to time) to govern the use of the Austraclear System.

Unless the Australian Domestic Instruments are lodged in the Austraclear System, application for the transfer of Australian Domestic Instruments must be made by the lodgement of a transfer and

acceptance form with the Australian Registrar. Each transfer and acceptance form must be accompanied by such evidence (if any) as the Australian Registrar may require to prove the title of the transferor or the transferor's right to transfer the Australian Domestic Instruments and must be signed by both the transferor and the transferee.

The transferor of an Australian Domestic Instrument is deemed to remain the Instrumentholder of that Australian Domestic Instrument until the name of the transferee is entered in the Australian Register in respect of that Australian Domestic Instrument. Transfers will not be registered later than eight days prior to the Maturity Date of an Australian Domestic Instrument.

Australian Domestic Instruments may only be transferred within, to or from Australia if (i) the aggregate consideration payable by the transferee at the time of transfer is at least A\$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the transferor or its associates) or the offer or invitation giving rise to the transfer does not constitute an offer or invitation for which disclosure is required to be made to investors in accordance with Part 6D.2 of the Corporations Act 2001 of Australia, (ii) the transfer is in compliance with all applicable laws, regulations or directives (including, without limitation, in the case of a transfer to or from Australia, the laws of the jurisdiction in which the transfer takes place), and (iii) in the case of a transfer between persons outside Australia, if a transfer and acceptance form is signed outside Australia. A transfer to an unincorporated association is not permitted.

A person becoming entitled to an Australian Domestic Instrument as a consequence of the death or bankruptcy of a Instrumentholder or of a vesting order or a person administering the estate of a Instrumentholder may, upon producing such evidence as to that entitlement or status as the Australian Registrar considers sufficient, transfer the Australian Domestic Instrument or, if so entitled, become registered as the holder of the Australian Domestic Instrument.

Where the transferor executes a transfer of less than all Australian Domestic Instruments registered in its name, and the specific Australian Domestic Instruments to be transferred are not identified, the Australian Registrar may register the transfer in respect of such of the Australian Domestic Instruments registered in the name of the transferor as the Australian Registrar thinks fit, provided the aggregate principal amount of the Australian Domestic Instruments registered as having been transferred equals the aggregate principal amount of the Australian Domestic Instruments expressed to be transferred in the transfer.

### **3 Status of the Instruments**

#### **3A. Status - Unsubordinated Instruments**

3A.01 This Condition 3A is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being unsubordinated or not specified as being subordinated.

3A.02 The Instruments constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, other than any obligations preferred by mandatory provisions of applicable law.

#### **3B. Status - Subordinated Instruments (other than Undated Instruments)**

This Condition 3B is applicable in relation to the Instruments of a Series (other than Undated Instruments) specified in the relevant Final Terms as being subordinated ("Dated Subordinated Instruments").

### **Status**

3B.01 The Instruments constitute direct and unsecured obligations of the Issuer, subordinated in the manner specified in Condition 3B.02 and rank *pari passu* without any preference among themselves and with the Instruments of each other Series to which the provisions of this Condition are expressed to apply.

### **Subordination**

3B.02 This Condition 3B.02 is applicable in relation to Instruments (other than Undated Instruments) issued on a subordinated basis.

The rights and claims of the Trustee, Instrumentholders and Couponholders against the Issuer in respect of the Instruments and Coupons will be subordinated, in the event of the bankruptcy, winding up or liquidation of the Issuer, to the claims of Senior Creditors of the Issuer (as defined below) in the manner provided in this Condition 3B.02 and in the Trust Deed, but shall rank at least *pari passu* and rateably with all other subordinated obligations (including guarantee obligations) of the Issuer and shall rank in priority to all undated or perpetual subordinated obligations (including guarantee obligations) of the Issuer and to the claims of holders of all classes of share capital of the Issuer.

“Senior Creditors of the Issuer” means all of the creditors of the Issuer whose claims are admitted to proof in the winding up or liquidation of the Issuer and who are unsubordinated creditors of the Issuer.

The subordination provisions apply to amounts payable under the Instruments and Coupons and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Issuer in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

## **3C. Status - Subordinated Undated Instruments**

This Condition 3C is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being subordinated which are Undated Instruments.

### **Status**

3C.01 The Instruments constitute direct and unsecured obligations of the Issuer, subordinated in the manner specified in Condition 3C.02, and rank *pari passu* without any preference among themselves and at least *pari passu* with the Instruments of each other Series to which the provisions of this Condition are expressed to apply and, in relation to Instruments in respect of which Bank of Scotland is Issuer, rank *pari passu* with the obligations of Bank of Scotland in respect of the U.S. \$250,000,000 Undated Floating Rate Primary Capital Notes, the £200,000,000 Perpetual Notes and the U.S.\$300,000,000 Reset Subordinated Notes of Bank of Scotland and, in relation to Instruments in respect of which HBOS is Issuer, rank *pari passu* with the obligations of HBOS in respect of the £300,000,000 7.50 per cent. Undated Subordinated Step-up Notes, €300,000,000 Floating Rate Undated Subordinated Step-up Notes, ¥42,500,000,000 3.50 per cent. Undated Subordinated Step-up Notes, £600,000,000 Undated Subordinated Notes, €500,000,000 Fixed to Floating Rate Undated Subordinated Notes, £500,000,000 5.75 per cent. Undated Subordinated Step-up Notes, U.S.\$1,000,000,000 6.85 per cent. Undated Subordinated Notes, £600,000,000 5.75 per cent. Undated Subordinated Step-up Notes and U.S.\$1,000,000,000 5.375 per cent. Undated Fixed to Floating Rate Subordinated Notes of HBOS.

### **Condition of Payment**

3C.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Issuer in respect of the Instruments and Coupons will be subordinated to the claims of Senior Creditors (as defined below) of the Issuer in that the payment of principal, redemption amount, interest or other amounts in respect of such Instruments or Coupons will, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 3C.03 below, be conditional upon the Issuer and, in relation to Instruments which are guaranteed, the Guarantor being solvent at the time of payment by the Issuer and, subject to the provisions of Condition 3C.04 below, no principal, redemption amount, interest or other amounts shall be payable in respect of such Instruments or Coupons except to the extent that the Issuer and, in relation to Instruments which are guaranteed (assuming that a payment was then due by the Guarantor), the Guarantor could make such payment and still be solvent (whether or not it is bankrupt or is being liquidated or is in winding up) immediately thereafter.

For the purposes of this Condition 3C.02 and of Condition 4C.02 below, the Issuer or, as the case may be, the Guarantor shall be considered to be solvent if (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) its Assets (as defined below) exceed its Liabilities (as defined below) to Senior Creditors. A report as to the solvency of the Issuer or the Guarantor by two Executive Officers (as defined in the Trust Deed) of the Issuer or, as the case may be, the Guarantor (subject always to the provisions of the Trust Deed) or, in certain circumstances as provided in the Trust Deed, the Auditors (as defined in the Trust Deed) or, if the Issuer or, as the case may be, the Guarantor is bankrupt or is being liquidated or wound up, its receiver in bankruptcy or its trustee or, as the case may be, its liquidator shall, unless the contrary is proved, be treated and accepted by the Issuer, the Guarantor, the Trustee, Instrumentholders and Couponholders as correct and sufficient evidence thereof. Amounts representing interest in respect of which the condition referred to in this paragraph is not satisfied on the due date for the payment thereof shall, so long as the same remains unpaid, constitute "Arrears of Interest" (otherwise than for the purposes of Condition 3C.03). Arrears of Interest under this Condition 3C.02 shall not bear interest.

"Senior Creditors" means (subject as provided below) in relation to the Issuer or the Guarantor, creditors of the Issuer or, as the case may be, the Guarantor (a) who are depositors and/or other unsubordinated creditors of the Issuer or, as the case may be, the Guarantor or (b) whose claims are, or are expressed to be, subordinated to the claims of depositors and/or other creditors, whether subordinated or unsubordinated, of the Issuer or, as the case may be, the Guarantor other than those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the Trustee, the Instrumentholders and Couponholders of the relevant Series. "Assets" means the total amount of the non-consolidated gross assets of the Issuer or, as the case may be, the Guarantor, and "Liabilities" means the total amount of the non-consolidated gross liabilities of the Issuer or, as the case may be, the Guarantor, in each case, as shown by the latest published audited balance sheet of the Issuer or, as the case may be, the Guarantor, but adjusted for contingencies and for subsequent events in such manner and to such extent as such Executive Officers, Auditors or, as the case may be, receiver in bankruptcy, trustee or liquidator may determine to be appropriate.

The condition of payment applies only to amounts payable under the Instruments and Coupons and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Issuer in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

### **Deferral of Interest**

3C.03

- (i) If Equity Accounting is specified in the relevant Final Terms, on any Optional Interest Payment Date there may be paid (if the Issuer so decides and gives notice of such decision to Instrumentholders) the interest accrued in the Interest Period which ends on that Optional Interest Payment Date, but the Issuer may, at its option, defer such payment in accordance with this Condition 3C.03(i), and any such deferred payment shall not constitute a default by the Issuer for any purpose. Any interest so deferred on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “Arrears of Interest”.
- (ii) If Financial Liability Accounting is specified in the relevant Final Terms:
  - (a) on any Optional Interest Payment Date with respect to which (I) a Capital Disqualification Event has not occurred or is not continuing or (II) the Issuer is in breach of its Applicable Regulatory Capital Requirements, there may be paid (if the Issuer so decides and gives prior notice of such decision to Instrumentholders) the interest accrued in the Interest Period which ends on that Optional Interest Payment Date, but the Issuer may at its option, defer such payment in accordance with this Condition 3C.03(ii), and any such deferral of payment shall not constitute a default by the Issuer for any purpose. Any interest so deferred on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “Arrears of Interest”; and
  - (b) on any Optional Interest Payment Date with respect to which (I) a Capital Disqualification Event has occurred and is continuing and (II) the Issuer is in compliance with its Applicable Regulatory Capital Requirements, the Issuer shall (subject to Condition 3C.02) be obliged to pay the interest accrued in the Interest Period which ends on that Optional Interest Payment Date.
- (iii) The Issuer may at its option, but subject to Condition 3C.02 and to the provisions of the following sentence (upon the expiry of not less than seven days’ notice to the Instrumentholders given in accordance with Condition 15) at any time pay all or part of the Arrears of Interest (being, if part only, the whole of the interest accrued on all of the Instruments of the relevant Series during any one or more Interest Accrual Periods) but so that, in the case of any such partial payment, the interest accrued during any Interest Accrual Period shall not be paid prior to that accrued during any earlier Interest Accrual Period. If there is outstanding more than one Series of Undated Instruments, then the Issuer may not pay all or any part of the Arrears of Interest in respect of any Series unless it pays all or (as near as practicable) an equivalent proportion of the Arrears of Interest in respect of each other Series of Undated Instruments then outstanding. All Arrears of Interest shall (subject to Conditions 3C.02 and 3C.04) become due in full on the date set for any redemption permitted under either of Conditions 6.05 or 6.06, or the commencement of liquidation or winding up of the Issuer. If notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Conditions 3C.02 and 3C.04) to do so upon the expiry of such notice. Any Arrears of Interest under this Condition 3C.03 shall themselves bear interest calculated at the same rate or rates and, *mutatis mutandis*, in the same manner as applies from time to time with respect to the Undated Instruments of the relevant Series in accordance with Condition 5.

If on any Payment Date, interest in respect of any Interest Accrual Period shall not have been paid, as a result of the exercise by the Issuer of its discretion pursuant to this Condition 3C.03, then from such Payment Date until such time as the full amount of such Arrears of Interest has been received by the Principal Paying Agent or the Trustee and no other Arrears of Interest remains unsatisfied with respect to the Undated Instruments of the relevant Series (such period,

the “Junior Payment Stopped Period”), Bank of Scotland, where the Issuer is Bank of Scotland, or HBOS, where the Issuer is HBOS, shall not declare, pay or make a dividend or other distribution (as defined in the Trust Deed) on any class of its stock or its share capital (as appropriate) or on any other Series of its Junior Obligations.

As used above, “Junior Obligations” means, with respect to Undated Instruments issued by Bank of Scotland, where the Issuer is Bank of Scotland, or with respect to Undated Instruments issued by HBOS, where the Issuer is HBOS, obligations of such Issuer which rank, or are expressed to rank, junior to such Undated Instruments (whether issued directly by such Issuer or indirectly by another entity and benefiting from a guarantee or support agreement from such Issuer which ranks or is expressed to rank junior to such Undated Instrument) but, in any such case, excluding any obligation of such Issuer (whether issued directly or indirectly as aforesaid) the initial tranche of which was issued on or before the Issue Date and the terms of which do not enable the Issuer thereof to defer, pass on, or eliminate a dividend or other distribution (as defined in the Trust Deed) during the relevant Junior Payment Stopped Period.

In these Conditions, the following terms shall have the following meanings:

“Applicable Regulatory Capital Requirements” means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Issuer or, where the Instruments are issued by Bank of Scotland, the Guarantor, on a solo and/or consolidated basis, including transitional rules and waivers.

“Capital Disqualification Event” is deemed to have occurred if (a) the Instruments would not be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as regulatory capital resources for the Issuer under Applicable Regulatory Capital Requirements and (b) the FSA has confirmed to the Issuer that the Instruments would not be eligible to qualify as regulatory capital resources for the Issuer.

“Capital Regulations” means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA.

“FSA” means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary bank supervisory authority with respect to the Issuer.

“Optional Interest Payment Date” means any due date for the payment of the interest accrued in respect of any Interest Period.

### ***Liquidation or Winding up***

3C.04 If, at any time, where the Issuer is either Bank of Scotland or HBOS, an order is made for the liquidation or winding up of the Issuer or an effective resolution is passed for the winding up of the Issuer, the Instruments shall become due and payable in accordance with this Condition 3C.04 and the Issuer shall, in lieu of any other payment on the Instruments of the relevant Series representing principal, redemption amount, accrued interest, Arrears of Interest and/or interest due but unpaid, but subject to the condition set out in Condition 3C.02 above, be obliged to pay, in respect of such Instruments, such amounts as would have been payable if the Instrumentholders had, on the day preceding the commencement of such liquidation or winding up, become holders of preference stock or shares in the capital of Bank of Scotland or HBOS (as appropriate) forming or being part of a class having a preferential right in the liquidation or winding up over the holders of all other classes of stock and shares in the capital of Bank of Scotland or HBOS (as appropriate) and entitled to receive in such liquidation or winding up an amount equal to the principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the

aggregate amount of all instalments that shall have become due and payable prior to the time that such order is made for the liquidation or winding up of Bank of Scotland or HBOS (as appropriate) or an effective resolution is passed for the winding up of Bank of Scotland or HBOS (as appropriate), and interest (if any) accrued since the Payment Date immediately preceding or coinciding with the commencement of such liquidation or winding up to the date of such repayment and all Arrears of Interest and/or, as the case may be, all such interest due but unpaid.

#### **Loss Absorption**

3C.05 The payment obligations of the Issuer in respect of the Instruments are conditional upon the Issuer and, in relation to Instruments which are guaranteed, the Guarantor, being solvent immediately before and after payment by the Issuer and, in relation to Instruments which are guaranteed, (assuming that a payment was then due by the Guarantor) the Guarantor. If this condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal, redemption amount, interest or other amounts in respect of the Instruments may be used by the Issuer or, as the case may be, the Guarantor, to absorb losses.

## **4 Status of the Guarantee**

### **4A. Status - Unsubordinated Guarantee**

This Condition 4A is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being guaranteed on an unsubordinated basis.

#### **Status**

4A.01 The obligations of the Guarantor under the Guarantee in respect of such Instruments constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and claims under the Guarantee rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future, save only for such obligations as may be preferred by mandatory provisions of applicable law.

### **4B. Status - Subordinated Guarantee (other than in respect of Undated Instruments)**

This Condition 4B is applicable in relation to Dated Subordinated Instruments of a series specified in the relevant Final Terms as being guaranteed on a subordinated basis.

#### **Status**

4B.01 The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor, subordinated in the manner described in Condition 4B.02 below, and claims under the Guarantee rank *pari passu* without any preference among themselves and at least *pari passu* with claims under the Guarantee in respect of the Instruments of any other Series to which this Condition 4B is expressed to apply.

4B.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Guarantor under the Guarantee in respect of such Instruments and Coupons are subordinated, in the event of winding up, liquidation, insolvency or other equivalent proceedings of the Guarantor, to the claims of Senior Creditors of the Guarantor (as defined below), in the manner provided in this Condition 4B.02 and in the Trust Deed, but shall rank at least *pari passu* and rateably with all other subordinated obligations (including guarantee obligations) of the Guarantor and shall rank in priority to all undated or perpetual subordinated obligations (including guarantee obligations) of the Guarantor and to the claims of holders of all classes of share capital of the Guarantor.

“Senior Creditors of the Guarantor” shall have the same meanings as “Senior Creditors of the Issuer” as defined in Condition 3B.02 but as if references therein to the Issuer were references to the Guarantor.

The subordination provisions apply only to amounts payable under the Guarantee and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against a Guarantor in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

#### **4C. Status - Subordinated Guarantee - Undated Instruments**

This Condition 4C is applicable in relation to the Instruments of a Series specified in the relevant Final Terms as being guaranteed on a subordinated basis and which are Undated Instruments.

##### **Status**

4C.01 The obligations of the Guarantor under the Guarantee constitute direct and unsecured obligations of the Guarantor, subordinated in the manner described in Condition 4C.02 below, and claims under the Guarantee rank *pari passu* without any preference among themselves and at least *pari passu* with claims under the Guarantee in respect of the Instruments of any other Series to which this Condition is expressed to apply and, where Bank of Scotland is the Guarantor, rank *pari passu* with the obligations of the Guarantor in respect of the U.S.\$250,000,000 Undated Floating Rate Primary Capital Notes, the £200,000,000 Perpetual Notes and the U.S.\$300,000,000 Reset Subordinated Notes of the Guarantor and, where HBOS is the Guarantor, rank *pari passu* with the obligations of the Guarantor in respect of the £300,000,000 7.50 per cent. Undated Subordinated Step-up Notes, €300,000,000 Floating Rate Undated Subordinated Step-up Notes, ¥42,500,000,000 3.50 per cent. Undated Subordinated Step-up Notes, £600,000,000 Undated Subordinated Notes, €500,000,000 Fixed to Floating Rate Undated Subordinated Notes, £500,000,000 5.75 per cent. Undated Subordinated Step-up Notes, U.S.\$1,000,000,000 6.85 per cent. Undated Subordinated Notes, £600,000,000 5.75 per cent. Undated Subordinated Step-up Notes and U.S.\$1,000,000,000 5.375 per cent. Undated Fixed to Floating Rate Subordinated Notes of the Guarantor.

##### **Condition of Payment**

4C.02 The rights and claims of the Trustee, Instrumentholders and Couponholders against the Guarantor under the Guarantee in respect of such Instruments and Coupons are subordinated to the claims of Senior Creditors (as defined in Condition 3C.02) of the Guarantor in that the payment of amounts guaranteed under the Guarantee will be conditional upon the Guarantor being solvent at the time of payment by the Guarantor and in that no amounts guaranteed under the Guarantee shall be payable except to the extent that the Guarantor could make such payment and still be solvent (within the meaning of Condition 3C.02) (whether or not it is being sequestered, liquidated or is in winding up) immediately thereafter.

A report as to the solvency of the Guarantor by two Executive Officers (as defined in the Trust Deed) of the Guarantor (subject always to the provisions of the Trust Deed) or the Auditors (as defined in the Trust Deed) of the Guarantor or, if the Guarantor has been liquidated or is being wound up, its liquidator shall, unless the contrary is proved, be treated and accepted by the Guarantor, the Trustee, Instrumentholders and Couponholders as correct and sufficient evidence thereof.

The condition of payment applies only to amounts payable under the Guarantee and nothing contained therein or in the Trust Deed shall affect or prejudice any claim by the Trustee against the Guarantor in respect of the costs, charges, expenses, liabilities or remuneration of the Trustee.

## **5 Interest**

Instruments may be interest-bearing or non-interest-bearing, as specified in the relevant Final Terms. The Final Terms in relation to each Series of interest-bearing Instruments shall specify which one (and one only in relation to any period of time) of Conditions 5A, 5B or 5C shall be applicable provided that Condition 5D will be applicable as specified therein and save to the extent inconsistent with the relevant Final Terms, the applicable Day Count Fraction will be as specified in Condition 5E and/or in the relevant Final Terms and the applicable business day convention will be as specified in Condition 5F and/or in the relevant Final Terms.

### **5A. Interest - Fixed Rate**

Instruments in relation to which this Condition 5A is specified in the relevant Final Terms as being applicable shall bear interest from their date of issue (as specified in the relevant Final Terms) or from such other date as may be specified in the relevant Final Terms at the rate or rates per annum specified in the relevant Final Terms. Such interest will be payable in arrear on the Interest Payment Dates specified in the relevant Final Terms and on the date of final maturity thereof subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02 and 3C.03. Interest in respect of a period of less than one year will be calculated by applying the relevant rate of interest as specified in the relevant Final Terms to the principal amount of the smallest or minimum denomination of such Instruments specified in the relevant Final Terms, multiplying the product by the relevant Day Count Fraction (as defined below) specified in the relevant Final Terms and rounding the resulting figure to the nearest sub-unit of the currency in which such Instruments are denominated or, as the case may be, in which such interest is payable (one half of such sub-unit being rounded upwards).

### **5B. Interest - Floating Rate**

5B.01 Instruments in relation to which this Condition 5B is specified in the relevant Final Terms as being applicable shall bear interest at the rates per annum determined in accordance with this Condition 5B.

5B.02 Such Instruments shall bear interest from their date of issue (as specified in the relevant Final Terms) or from such other date as may be specified in the relevant Final Terms. Such interest will, subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02 and 3C.03, be payable on each Interest Payment Date. If such date of issue or such other date as aforesaid or any succeeding Interest Payment Date falls on the last Business Day of a month, each subsequent Interest Payment Date shall be the last Business Day of the relevant month.

5B.03 The Final Terms in relation to each Series of Instruments in relation to which this Condition 5B is specified as being applicable shall specify the Relevant Screen Page.

5B.04 The Rate of Interest in respect of Floating Rate Instruments for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(i) ISDA Determination for Floating Rate Instruments

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Determination Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (i), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified hereon
- (b) the Designated Maturity is a period specified hereon and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (i), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

**(ii) Screen Rate Determination for Floating Rate Instruments**

- (a) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
  - (x) the offered quotation; or
  - (y) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Determination Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Determination Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Instruments is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Instruments will be determined as provided in the applicable Final Terms.

- (b) If the Relevant Screen Page is not available, or if sub-paragraph (a)(x) applies and no such offered quotation appears on the Relevant Screen Page, or if sub-paragraph (a)(y) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Determination Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Determination Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Determination Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Determination Agent.
- (c) If paragraph (b) above applies and the Determination Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Determination Agent by the Reference Banks or any two or more of them, at which

such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the

Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Determination Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Determination Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Rate Multiplier or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

5B.05 The Determination Agent will, as soon as practicable after determining the Rate of Interest in relation to each Interest Period, calculate the Interest Amount payable in respect of the principal amount of the smallest or minimum denomination of such Instruments specified in the relevant Final Terms for the relevant Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to such principal amount, multiplying the product by the Day Count Fraction (as defined below) specified in the relevant Final Terms and rounding the resulting figure to the nearest sub-unit of the currency in which such Instruments are denominated or, as the case may be, in which such interest is payable (one half of any such sub-unit being rounded upwards) save that, where the relevant currency is Japanese yen, one half of one yen shall be rounded downwards.

## **5C. Interest - Other Rates**

5C.01 **Rate of Interest for Index Linked Interest Instruments:** The Rate of Interest in respect of Index Linked Interest Instruments for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

5C.02 **Rate of Interest for Non Interest Bearing Instruments:** Where an Instrument the Interest Basis of which is specified to be Non Interest Bearing is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Instrument. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Instrument shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6.02).

5C.03 **Rate of Interest for Dual Currency Instruments:** In the case of Dual Currency Instruments, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method

of calculating a Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

5C.04 **Rate of Interest for Partly Paid Instruments:** In the case of Partly Paid Instruments (other than Partly Paid Instruments which are Non Interest Bearing Instruments), interest will accrue as aforesaid on the paid-up principal amount of such Instruments and otherwise as specified hereon.

5C.05 Instruments in relation to which this Condition 5C is specified in the relevant Final Terms as being applicable and which are not Index Linked Interest Instruments, Non Interest Bearing Instruments, Dual Currency Instruments or Partly Paid Instruments shall bear interest at the rates per annum or calculated on the basis specified in, and be payable subject, in the case of Undated Instruments, to the provisions of Conditions 3C.02 and 3C.03, in the amounts and in the manner determined in accordance with, the relevant Final Terms.

## **5D. Interest - Supplemental Provisions**

5D.01 Conditions 5D.02, 5D.03, 5D.04 and 5D.05 shall be applicable (as appropriate) in relation to all Instruments which are interest-bearing.

### ***Notification of Items Determined by the Determination Agent***

5D.02 The Determination Agent will cause each Rate of Interest, floating rate, Interest Payment Date, final day of a Calculation Period, Interest Amount, floating amount or other item determined or calculated by it in accordance with the relevant Final Terms to be notified to the Issuer, the Guarantor (if applicable), the Trustee, the Principal Paying Agent, the Australian Paying Agent and the Australian Registrar (as appropriate) as soon as practicable after such determination or calculation but in any event not later than the fourth London Banking Day thereafter and in relation to Instruments other than Australian Domestic Instruments, the Principal Paying Agent will cause them to be notified to the Paying Agents (from whose respective specified offices such information will be available) and, in the case of those Instruments listed, traded and/or quoted on a listing authority, stock exchange and/or quotation system and such listing authority, stock exchange and/or quotation system so requires, to such listing authority, stock exchange and/or quotation system by the time required by the relevant listing authority, stock exchange and/or quotation system.

5D.03 The Determination Agent will be entitled (with the consent of the Trustee) to amend any Interest Amount, floating amount, Interest Payment Date or last day of a Calculation Period (or to make (with the consent of the Trustee) appropriate alternative arrangements by way of adjustment) without notice in the event of the extension or abbreviation of any relevant Interest Period or Calculation Period. If for any reason the Determination Agent does not, at any time, determine or calculate any item required to be determined by it, the Trustee shall determine or calculate the relevant item in such manner as, in its absolute discretion (having such regard as it shall think fit to the procedures described above, but subject always to any minimum or maximum interest rate which may be prescribed), it thinks fit or, as the case may be, the Trustee shall calculate or determine the relevant item in the manner specified above and such determination or calculation shall be deemed to have been made by the Determination Agent.

5D.04 The determination by the Determination Agent or the Trustee of all items falling to be determined by it shall, in the absence of manifest error, be final and binding on all parties. As used herein the "Determination Agent" means the Principal Paying Agent or such other agent as may be specified in the relevant Final Terms.

### ***Accrual of Interest***

5D.05 Interest shall accrue on the principal amount of each Instrument or, in the case of an Instalment Instrument, on each instalment of principal or, in the case of Partly Paid Instruments, on the paid

up principal amount of such Instrument or otherwise as indicated in the relevant Final Terms. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal on the due date for payment thereof) unless upon due presentation and (except in the case of payment of an instalment of principal other than the final instalment) surrender thereof, payment in full of the principal amount or the relevant instalment or, as the case may be, redemption amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue thereon as provided in the Trust Deed.

***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding***

5D.06

- (i) If any Margin or Rate Multiplier is specified hereon (either (a) generally, or (b) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (a), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (b), calculated in accordance with Condition 5 above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (a) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (b) all fractions shall be rounded to seven significant figures (with halves being rounded up) and (c) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

**5E. Interest - Definitions**

In these Conditions, unless the context otherwise requires the following defined terms shall have the meanings set out below:

"Business Day" means a day:

- in relation to Instruments payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is operating (a "TARGET Settlement Day");
- in relation to Instruments payable in any other currency, on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant Instruments; and
- on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the relevant Final Terms; and as the same may be modified in the relevant Final Terms.

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Instrument for any Interest Period, such day count fraction as may be specified in the Final Terms and;

- (i) if “Actual/Actual (Bond)” is specified in the relevant Final Terms as applying in relation to Condition 5A and interest is scheduled to be paid only in respect of regular Interest Periods, on the basis of the number of days in the period of less than one year divided by the product of (A) the number of days in the relevant Interest Period and (B) the number of Interest Payment Dates in any period of one year;
- (ii) if “Actual/365” or “Actual/Actual (ISDA)” is so specified, means the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if “Actual/Actual (ICMA)” is so specified:
  - (a) if the Interest Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Interest Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
  - (b) if the Interest Period is longer than one Determination Period, the sum of:
    - (x) the number of days in such Interest Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
    - (y) the number of days in such Interest Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date or, in respect of the first Determination Period, the Interest Commencement Date.
- (iv) if “Actual/365 (Fixed)” is so specified, means the actual number of days in the Interest Period divided by 365;
- (v) if “Actual/360” is so specified, means the actual number of days in the Interest Period divided by 360;
- (vi) if “30/360” is so specified, means the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Interest Period is the 31 day of a month but the first day of the Interest Period is a day other than the 30 or 31 day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (vii) if “30E/360” or “Eurobond Basis” is so specified, means the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, (i) in the case of the final Interest Period, the date of final maturity, or (ii) in the case of a redemption

in accordance with Conditions 6.05, 6.06, 6.09 or any date for repayment in accordance with Condition 7, the date fixed for redemption or repayment, is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

- (viii) if “RBA Bond Basis” or “Australian Bond Basis” is specified in the Final Terms, one divided by the number of Interest Payment Dates in a year (or where the Determination Period does not constitute an Interest Period, “Actual/365” as defined in paragraph (ii) above).

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Instruments, means the Fixed Coupon Amount or Broken Amount, as the case may be.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Settlement Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Payment Dates” means the dates specified as such hereon.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended and updated as at the date of issue of the Instruments as specified in the Final Terms, unless otherwise specified hereon.

“Margin” means the margin specified as such hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Instrument and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Determination Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Financial Centre” means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of “Business Day” in the ISDA Definitions, as the same may be modified in the relevant Final Terms.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Instruments are denominated.

## **5F. Business Day Conventions**

Unless otherwise specified in the relevant Final Terms, if any Interest Payment Date (or other date) which is specified in the applicable Final Terms to be subject to adjustment in accordance with a business day convention would otherwise fall on a date which is not a Business Day (as defined in Condition 5E), then, if the business day convention specified is:

- (i) the “Following Business Day Convention”, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day; or
- (ii) the “Modified Following Business Day Convention”, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other date) shall be brought forward to the immediately preceding day which is a Business Day; or
- (iii) the “Preceding Business Day Convention”, such Interest Payment Date (or other date) shall be brought forward to the immediately preceding day which is a Business Day.

## **5G. Interest -Index Linked**

Where “Index Linked Interest” is specified as the basis of calculating interest in the relevant Final Terms, Condition 5C.01 (*Rate of Interest for Index Linked Interest Instruments*) shall be replaced with Condition 5G (and the definitions included therein shall be in addition to those set out in Condition 5E.)

### **5G.01 Definitions**

“Base Index Figure” means (subject to Condition 5G.03(i)) the base index figure as specified in the relevant Final Terms;

“Index” or “Index Figure” means, subject as provided in Condition 5G.03(i):

- (i) where “UK RPI” is specified as being the Index in the relevant Final Terms, the UK Retail Price Index (RPI) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure which is specified in the relevant Final Terms as:
  - (a) applicable to a particular month, shall, subject as provided in Conditions 5G.03 and 5G.05, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or
  - (b) applicable to the first calendar day of any month shall, subject as provided in Conditions 5G.03 and 5G.05, be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
  - (c) applicable to any other day in any month shall, subject as provided in Conditions 5G.03 and 5G.05, be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (b) above and (y) the Index Figure applicable to the first calendar day of the month following, calculated as specified in sub-paragraph (b) above and rounded to the nearest fifth decimal place; or

- (ii) such other index or formula as specified in the relevant Final Terms.

If the Index is replaced, the Issuer will give notice of the replacement Index to the Instrumentholders in respect of the relevant Series;

“Index Commencement Date” means (i) where “UK RPI” is specified as being the Index in the relevant Final Terms, January 1987; or (ii) such other index commencement date as specified in the relevant Final Terms;

“Index Ratio” applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure and rounded to the nearest fifth decimal place;

“Indexation Adviser” means a gilt-edged market maker or other indexation adviser selected by the Issuer;

“Limited Index Linked Instruments” means Index Linked Instruments to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

“Limited Index Ratio” means (a) in respect of any month or date, as the case may be, prior to the relevant Issue Date, the Index Ratio for that month or date, as the case may be, (b) in respect of any Limited Indexation Date after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date, as the case may be, and the Limited Index Ratio as previously calculated in respect of the month or date, as the case may be, twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

“Limited Indexation Date” means any date falling during the period specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

“Limited Indexation Factor” means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date, as the case may be, divided by the Index Figure applicable to the month or date, as the case may be, twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

“Limited Indexation Month” means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

“Reference Gilt” means the reference gilt specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such index-linked reference gilt determined to be appropriate by an Indexation Adviser; and

“Substitute Index Figure” means (i) where “UK RPI” is specified as being the Index in the relevant Final Terms, such substitute index figure published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock; or (ii) such other substitute index figure as specified in the relevant Final Terms.

#### **5G.02 Application of the Index Ratio**

Each payment of interest in respect of the Instruments shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Index Linked Instruments applicable to the month or date, as the case may be, on which such payment falls to be made and rounded in accordance with Condition 5D.06.

#### **5G.03 Changes in Circumstances Affecting the Index**

- (i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month from and including that in which such substitution takes effect or the first date from and including that on which such substitution takes effect, as the case may be, (1) the definition of "Index" and "Index Figure" in Condition 5G.01 shall be deemed to refer to the new date or month in substitution for the Index Commencement Date (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.
- (ii) Delay in publication of Index: If the Index Figure relating to any month (the "calculation month") which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the "date for payment"), the Index Figure applicable for the relevant calculation month shall be (1) such Substitute Index Figure selected by an Indexation Adviser (and approved by the Trustee) or (2) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5G.03(i)) before the date for payment.

#### **5G.04 Application of Changes**

Where the provisions of Condition 5G.03(ii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls or the date for payment, as the case may be, shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 5G.03(ii)(2), the Index Figure relating to the relevant calculation month is subsequently published while an Instrument is still outstanding, then:

- (i) in relation to a payment of interest in respect of such Instrument other than upon final redemption of such Instrument, the interest next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 5G.03 (ii)(2) below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and
- (ii) in relation to a payment of interest upon final redemption, no subsequent adjustment to amounts paid will be made.

#### **5G.05 Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Trustee has been notified by the Determination Agent that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer, or (B) the Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Instrumentholders, the Trustee will give written notice of such occurrence to the Issuer in the case of (B), and the Issuer and the Trustee together shall seek to agree for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall

be appointed by the Issuer and the Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Trustee (in each case, such bank or other person so appointed being referred to as the "Expert"), to determine for the purpose of the Instruments one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Instrumentholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Trustee and the Instrumentholders and the Issuer shall give notice to the Instrumentholders in accordance with Condition 15 of such amendments as promptly as practicable following such notification.

## **6 Redemption and Purchase**

### ***Redemption at Maturity***

6.01 This Condition 6.01 is applicable to all Instruments other than Undated Instruments. Unless previously redeemed, or purchased and cancelled, Instruments shall be redeemed at their principal amount (or at such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) (the "Final Redemption Amount") (or, in the case of Instalment Instruments, in such number of instalments and in such amounts as may be specified in the relevant Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the relevant Final Terms.

Where "Index Linked Redemption" is specified as the basis of calculating the Final Redemption Amount in the relevant Final Terms it shall be calculated using the terms specified in the relevant Final Terms as defined in Condition 5G.01. Conditions 5G.02 and 5G.04 shall apply as if references therein to "interest" were to "principal".

### ***Early Redemption***

6.02 Non Interest Bearing Instruments:

- (i) The Early Redemption Amount payable in respect of any Non Interest Bearing Instruments, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Instrument pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7 shall be the Amortised Face Amount (calculated as provided below) of such Instrument unless otherwise specified hereon.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Instrument shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Instruments if they were discounted back to their issue price on the Issue Date) compounded annually.

- (iii) If the Early Redemption Amount payable in respect of any such Instrument upon its redemption pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7 is not paid when due, the Early Redemption Amount due and payable in respect of such Instrument shall be the Amortised Face Amount of such Instrument as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the date on which the Instrument becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Instrument on the Maturity Date together with any interest that may accrue in accordance with Condition 5C.02.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon or, if no Day Count Fraction is specified, on the basis of a Day Count Fraction of 30/360 as defined in Condition 5E (vi).

6.03 Other Instruments:

The Early Redemption Amount payable in respect of any Instrument (other than Instruments described in 6.2 above), upon redemption of such Instrument pursuant to Condition 6.05 or upon it becoming due and payable as provided in Condition 7, shall be the Final Redemption Amount unless otherwise specified hereon.

**No Fixed Maturity**

- 6.04 This Condition 6.04 is applicable to Undated Instruments. There is no fixed redemption date for the Instruments and the Issuer shall (subject to the provisions of Condition 3C.02 and without prejudice to the provisions of Condition 7) only have the right to repay them in accordance with such provisions of this Condition 6 as are specified in the relevant Final Terms as being applicable to such Undated Instruments.

**Optional Tax Redemption**

- 6.05 If, in relation to any Series of Instruments, immediately prior to the giving of the notice referred to below, the Issuer or any Guarantor satisfies the Trustee that, as a result of a change in or amendment to the laws of the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch and/or, if different, the country of tax residence of the Issuer or of any Guarantor or, in each case, of any political subdivision or taxing authority thereof or therein affecting taxation, or a change in an official application or interpretation of such law, which change, amendment, application or interpretation becomes effective on or after the date of issue of such Instruments or any earlier date specified in the relevant Final Terms: (i) on the occasion of the next payment due in respect of such Instruments the Issuer would, for reasons outside its control (after using such endeavours as the Trustee shall consider reasonable), be unable to make such payment without being required to pay additional amounts as provided in Condition 8 or any Guarantor would, for reasons outside its control (after using such endeavours as the Trustee shall consider reasonable to avoid being required to pay additional amounts as referred to below) and being unable to procure the Issuer duly to make any payment due in respect of the Instruments, be required to make payment in respect of interest under the Guarantee, and, on the occasion of the next payment due in respect of the Instruments, would be required to pay additional amounts as provided in Condition 8, (ii) any tax would be imposed (whether by way of deduction or withholding or otherwise) or relief from tax would be withdrawn by the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch and/or if

different, the country of tax residence of the Issuer or of any Guarantor or, in each case, of any political subdivision or taxing authority thereof or therein, upon or with respect to any payment in respect of interest received or receivable or deemed to be received or receivable by the Issuer from any Guarantor under the Guarantee and both the Guarantor and the Issuer would not be entitled to any tax relief in respect of the interest to which such payment under the Guarantee relates, or (iii) based upon an opinion of legal advisers to the Issuer or any Guarantor, as the case may be, as a result of any action taken by any taxing authority of, or any action brought in a court of competent jurisdiction in the country of incorporation of the Issuer or of the Guarantor, and/or where the Issuer is Bank of Scotland, acting through its Australia branch and/or if different, the country of tax residence of the Issuer or of any Guarantor or, in each case, any political subdivision thereof (whether or not such action was taken or brought with respect to the Issuer or any Guarantor), which action is taken or brought on or after the date of issue of such Instruments or any earlier date specified in the relevant Final Terms, there is a substantial probability that the circumstances described in clause (i) or (ii) would exist, then, in each case, the Issuer may, at its option, subject, in the case of Dated Subordinated Instruments and Undated Instruments, to the provisions of Condition 6.12 below and applicable provisions of the Capital Regulations and, in the case of subordinated Undated Instruments, to the provisions of Condition 3C.02, having given no less than thirty nor more than sixty days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable and, if so specified in the relevant Final Terms, ending not earlier than such date as may be specified in the relevant Final Terms) to the Instrumentholders in accordance with Condition 15 (which notice shall be irrevocable) redeem all (but not some only) of the Instruments comprising the relevant Series at their principal amount (or at such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption, together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof provided, however, (and except in the case of Instruments which bear interest at a floating rate) that no such notice of redemption may be given earlier than 90 days prior to the earliest date on which (in the case of (i)) the Issuer or any Guarantor would be obliged to pay such additional amounts or (in the case of (ii)) the Issuer would be required to make a payment of tax by reason of the relevant imposition of tax or withdrawal of relief; in each case were a payment in respect of the Instruments then due.

***Optional Early Redemption (Call)***

- 6.06 If this Condition 6.06 is specified in the relevant Final Terms as being applicable, then the Issuer may, subject, in the case of Dated Subordinated Instruments and Undated Instruments, to Condition 6.12 below and applicable provisions of the Capital Regulations and, in the case of Undated Instruments, to the provisions of Condition 3C.02, at its option, upon the expiry of the appropriate notice period and subject to such conditions as may be specified in the relevant Final Terms, redeem all (but not, unless and to the extent that the relevant Final Terms specify otherwise, some only) of the Instruments of the relevant Series at their principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof.

6.07 The appropriate notice referred to in Condition 6.06 is a notice given by the Issuer to the Trustee, the Principal Paying Agent and the Instrumentholders of the relevant Series, and which shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption which is not less than thirty days (or such lesser period as may be specified in the relevant Final Terms) after the date on which such notice is validly given and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable and which is, if so specified in the relevant Final Terms, not earlier than such date as may be specified in the relevant Final Terms; and
- the amount at which such Instruments are to be redeemed, which shall be their principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed) and, in the case of Undated Instruments, Arrears of Interest (if any) in respect thereof.

Any such notice shall be irrevocable, and the delivery thereof shall, subject in the case of Undated Instruments, to the provisions of Condition 3C.02, oblige the Issuer to make the redemption therein specified.

***Partial Redemption\****

6.08 If some only of the Instruments of a Series are to be redeemed on any date in accordance with the provisions of Condition 6.06, the Instruments to be redeemed shall be drawn by lot in such European city as the Trustee may specify or identified in such other manner or in such other place as the Trustee may approve and deem appropriate and fair subject always to compliance with all applicable laws, the requirements of any stock exchange on which the relevant Instruments may be listed and, if applicable, the rules of Euroclear and Clearstream, Luxembourg.

***Optional Early Redemption (Put)\****

6.09 If this Condition 6.09 is specified in the relevant Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by any Instrumentholder of the relevant Series, redeem such Instrument on the date or the next of the dates specified in the relevant Final Terms at its principal amount (or such other redemption amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption, together with, in the case of Instruments which bear interest, accrued interest (if any) thereon (calculated as provided in these Conditions and in the Trust Deed). In order to exercise such option, the Instrumentholder must, not less than forty-five days and not more than 60 days before the date so specified (or such other period as may be specified in the relevant Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with any unmatured Coupons appertaining thereto) with

---

\* Not applicable to Dated Subordinated Instruments or Undated Instruments.

any Paying Agent, or (in the case of Registered Instruments (other than Australian Domestic Instruments)) the Certificate representing such Instrument(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed redemption notice ("Exercise Notice") in the form which is available from the specified office of any of the Paying Agents, the Registrar or any Transfer Agent.

#### ***Purchase of Instruments***

6.10 The Issuer or any Guarantor or any Subsidiary (as defined in the Trust Deed) of any Guarantor may (subject, in the case of Dated Subordinated Instruments and Undated Instruments, to the prior consent of, or notification to (and no objection being raised by), the FSA, in each case solely to the extent then required) at any time purchase Instruments in the open market or otherwise and at any price provided that, in the case of interest-bearing Definitive Instruments, any unmatured Coupons appertaining thereto are purchased therewith.

#### ***Cancellation of Redeemed and Purchased Instruments***

6.11 All unmatured Instruments redeemed or purchased in accordance with this Condition 6 and, in the case of interest-bearing Definitive Instruments, any unmatured Coupons attached thereto or surrendered or purchased therewith may be cancelled, reissued or resold by, in the case of Bearer Instruments, surrendering each such Instrument together with all unmatured Coupons and all unexchanged Talons to the Principal Paying Agent and, in the case of Registered Instruments (other than Australian Domestic Instruments), by surrendering the Certificate representing such Instruments to the Registrar.

#### ***Financial Services Authority Consent***

6.12 Undated Instruments and (in the case only of redemption prior to the relevant final date for maturity) Dated Subordinated Instruments may only be redeemed by the relevant Issuer pursuant to Condition 6.05 or 6.06 provided that:

- (i) the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled for redemption and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto; and
- (ii) the Issuer has satisfied both the Trustee and the FSA that, both at the time when the notice of redemption is given and immediately following such redemption, the Issuer is or will be (as the case may be) in compliance with its capital adequacy requirements as provided in the Capital Regulations (except to the extent that the FSA no longer so requires).

There is no fixed redemption date for Undated Instruments and the Issuer shall (subject to the provisions of Conditions 6.05, 6.06, this Condition 6.12 and Condition 7) only have the right to repay them in accordance with such provisions as may be specified in the applicable Final Terms.

## **7 Default and Enforcement**

#### ***Defaults***

7.01 Unless otherwise specified in the relevant Final Terms, in relation to the Instruments of a Series specified in the Final Terms as being subordinated or as being guaranteed on a subordinated basis, only the events (a "Default") specified in paragraph (i) below shall be defaults in relation to the Instruments of such Series and, in relation to each other Series of Instruments, the following events ("Defaults") shall be defaults in relation to the Instruments of such Series, namely:

- (i) default is made in the payment of any principal or redemption amount due on any Instruments or for thirty days or more in the payment of any interest due in respect of any

Instruments. For the purpose of this paragraph, and for the avoidance of doubt, the exercise by the Issuer of its right, pursuant to Condition 3C.03, to defer any payment(s) of interest shall not constitute failure to make payment of interest; or

- (ii) a default is made in the performance by the Issuer or Bank of Scotland or HBOS of any obligation (other than any obligation for the payment of principal, redemption amount or interest in respect of the Instruments) under the provisions of such Instruments or the Trust Deed (other than a provision expressly included in the Trust Deed solely for the benefit of the Instruments of any other Series) which (unless certified by the Trustee, in its opinion, to be incapable of remedy) shall continue for more than 30 days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given by certified or registered mail to the Issuer and Bank of Scotland and HBOS by the Trustee; or
- (iii) an order is made or an effective resolution passed for the bankruptcy or liquidation or winding up of the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary (as defined below), as the case may be, (except a bankruptcy, liquidation or winding up for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Instrumentholders of the relevant Series); or
- (iv) the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary ceases or threatens to cease to carry on its business or substantially all its business (except a cessation or threatened cessation for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series); or
- (v) proceedings shall be initiated against the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of the assets of any of them or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of the assets of the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series) or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the Issuer, Bank of Scotland, HBOS or any Principal Subsidiary shall stop payment or shall be unable, or shall admit inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or

- (vii) the Guarantee of Bank of Scotland or HBOS is not, or is claimed by the relevant Guarantor not to be, in full force and effect.

For the purpose of this Condition 7.01, a "Principal Subsidiary" at any time means any Subsidiary (as defined in the Trust Deed) of Bank of Scotland or HBOS (a) whose total net assets or total net profits (after deducting all charges except taxation and excluding extraordinary items) (where the Subsidiary in question itself has subsidiaries, calculated on a consolidated basis) represent not less than 10 per cent. of the total consolidated net assets or the total consolidated net profits (after deducting all charges except taxation and excluding extraordinary items) of Bank of Scotland or HBOS, all as calculated by reference to the then latest audited accounts of each Subsidiary (and of its subsidiaries) and the then latest audited consolidated accounts of Bank of Scotland or HBOS; or (b) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary. A report by the Auditors of Bank of Scotland or HBOS that, in their opinion, a Subsidiary is or is not a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, Bank of Scotland, HBOS, the Trustee, Instrumentholders and Couponholders.

### ***Unsubordinated Instruments***

- 7.02 This Condition 7.02 is applicable to Instruments other than Instruments specified in the relevant Final Terms as being subordinated or as being guaranteed on a subordinated basis.

If any Default shall occur in relation to any Series of Instruments to which this Condition 7.02 applies, the Trustee may, at its discretion, and shall (subject to its rights under the Trust Deed to be indemnified to its satisfaction) if so requested by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of the relevant Series then outstanding (as defined in the Trust Deed) or if directed by an Extraordinary Resolution of the Instrumentholders of the relevant Series (but, in the case of the happening of any of the events mentioned in sub-paragraph (ii) of Condition 7.01 or, except in relation to Bank of Scotland or HBOS as Guarantor, paragraphs (iii) to (vi) of Condition 7.01 (or any other event specified as a Default in the relevant Final Terms to which such requirement applies), only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Instrumentholders of the relevant Series), but subject always to the final sentence of this paragraph, give notice to the Issuer and Bank of Scotland and HBOS that such Instruments and (if the Instruments are interest-bearing) all interest then accrued on such Instruments to be forthwith due and payable, whereupon the same shall become immediately due and payable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date fixed for redemption plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed) without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments or the Trust Deed to the contrary notwithstanding. The right of the Trustee to give written notice to the Issuer and Bank of Scotland and HBOS as aforesaid shall terminate if all the Defaults giving rise to such right have been cured to the satisfaction of the Trustee before such right is exercised.

At any time after the Instruments of any Series shall have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer and/or Bank of Scotland and/or HBOS as it may think fit to enforce repayment of the principal amount of such Instruments (or such other amount as may be specified in or determined in accordance with the relevant Final Terms) (less, in the case of any Instalment Instrument, as aforesaid) together with (if the Instruments are interest-bearing) accrued interest (if any) thereon (calculated as

provided in these Conditions and in the Trust Deed) and to enforce the provisions of the Trust Deed Provided that it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of such Series then outstanding or if so directed by an Extraordinary Resolution of the Instrumentholders of such Series and (b) it shall have been indemnified to its satisfaction as provided in the Trust Deed.

***Subordinated Instruments - guaranteed***

7.03 This Condition 7.03 is applicable to Instruments which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

Upon the occurrence of certain events of bankruptcy, insolvency or reorganisation of the Issuer (as set out in the Trust Deed), where the Issuer is Bank of Scotland, HBOS shall, immediately and without further formality, assume the obligations of the Issuer as principal debtor under the Trust Deed in respect of the Instruments of any Series to which this Condition 7.03 applies (with its obligations subordinated, as provided in the Trust Deed, to the same extent and on the same basis as its obligations under the Guarantee in respect of such Instruments were subordinated) in place of the Issuer, and the Guarantee given by HBOS in respect of such Instruments shall cease to be of effect and the Trustee and the Instrumentholders (and the Couponholders, if any) shall thereupon cease to have any rights or claims whatsoever against the Issuer in respect thereof (but without prejudice to their rights or claims against HBOS where it assumes the obligations of the Issuer as principal debtor, as aforesaid), provided that (i) no Instrumentholder or Couponholder shall, in connection with any change in principal debtor pursuant to this Condition 7.03, be entitled to claim from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such change upon individual Instrumentholders or Couponholders except to the extent already provided for in Condition 8 or any undertaking given in addition to or in substitution for it pursuant to the Trust Deed and (ii) HBOS shall not be obliged by virtue of such assumption, but without prejudice to the provisions of Condition 7.08 if specified in the relevant Pricing Supplement as applicable to Instruments of the relevant Series, to pay any sum or sums sooner than the same would have been payable by the Issuer pursuant to these Conditions if no such event had occurred.

7.04 This Condition 7.04 is applicable to Instruments which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

If a Default shall occur in relation to the Instruments of any Series to which this Condition 7.04 applies, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) petition for, or prove for the debt in, the liquidation, bankruptcy or winding up (as the case may be) of the Issuer and/or, where the Issuer is Bank of Scotland, HBOS but no other remedy shall be available to the Trustee or (subject to the provisions of Condition 7.11) Instrumentholders or Couponholders. In particular, subject to applicable law, no Instrumentholder or Couponholder nor the Trustee shall, following a Default or a Potential Default (as defined in the Trust Deed) or at any other time whatsoever, be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Issuer or the Guarantor in respect of any Instrument or Coupon. The Trust Deed further provides that if, whether by operation of law or otherwise, at any time any of the rights or claims of an Instrumentholder or Couponholder or the Trustee is discharged by set-off, the relevant Instrumentholder or Couponholder or the Trustee (as the case may be) shall immediately pay an amount equal to the amount of the discharge to the Issuer or the Guarantor or, as the case may be, its receiver in bankruptcy or its liquidator or trustee to be held on trust for the unsubordinated creditors of the Issuer or the Guarantor, all as more fully provided in the Trust Deed.

***Subordinated Instruments - not guaranteed***

- 7.05 This Condition 7.05 is applicable to Instruments which are specified in the relevant Final Terms as being subordinated but which are not guaranteed.

If a Default shall occur in relation to the Instruments of any Series to which this Condition 7.05 applies, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) petition for, or prove for the debt in, the liquidation or winding up of the Issuer but no other remedy shall be available to the Trustee or (subject to the provisions of Condition 7.11) the Instrumentholders or Couponholders. In particular, subject to applicable law, no Instrumentholder or Couponholder nor the Trustee shall, following a Default or a Potential Default (as defined in the Trust Deed), or at any other time whatsoever, be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Issuer in respect of any Instrument or Coupon. The Trust Deed further provides that if, whether by operation of law or otherwise, any of the rights or claims of an Instrumentholder or Couponholder or the Trustee is discharged by set-off, the relevant Instrumentholder or Couponholder or the Trustee (as the case may be) shall immediately pay an amount equal to the amount of the discharge to the Issuer or, as the case may be, its liquidator to be held on trust for the unsubordinated creditors of the Issuer, all as more fully provided in the Trust Deed.

- 7.06 Notwithstanding any of the foregoing provisions, in respect of Undated Instruments the right to institute relevant insolvency proceedings is limited to circumstances where the relevant payment of principal or interest (as the case may be) has become due. No principal, premium, interest or any other amount will be due unless the condition to payment set out in Condition 3C.02 is satisfied. Also, in the case of any payment of interest, such payment will not be due if the Issuer has elected to defer that payment pursuant to Condition 3C.03.

***Subordinated Instruments (other than Undated Instruments) - not guaranteed***

- 7.07 This Condition 7.07 is applicable to Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being subordinated but which are not guaranteed.

If, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series, an order is made or an effective resolution is passed for the liquidation or winding up of the Issuer, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) give notice to the Issuer that the Instruments of any Series to which this Condition 7.07 applies are, and they shall accordingly immediately become, due and repayable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date upon which the Instruments become due and payable pursuant to this Condition 7.07 plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed).

***Subordinated Instruments (other than Undated Instruments) - guaranteed***

- 7.08 This Condition 7.08 is applicable to Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being guaranteed on a subordinated basis.

If, otherwise than for the purposes of reconstruction or amalgamation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Instrumentholders of the relevant Series, an order is made or an effective resolution is passed for the liquidation or winding up of, where the Issuer is Bank of Scotland, HBOS, the Trustee may, at its discretion, and shall (if Condition 7.10 is satisfied) give notice to Bank of Scotland and HBOS that the Instruments of any Series to which this Condition 7.08 applies are, and they shall accordingly

immediately become, due and repayable at their principal amount (or at such other amount as may be specified in or determined in accordance with the relevant Final Terms) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument prior to the date upon which the Instruments become due and payable pursuant to this Condition 7.08 plus (if the Instruments are interest-bearing) accrued interest thereon (calculated as provided in these Conditions and in the Trust Deed).

- 7.09 This Condition 7.09 is applicable to Dated Subordinated Instruments and Undated Instruments, whether specified in the relevant Final Terms to be guaranteed or not.

Without prejudice to any other provision of this Condition 7, if the relevant Issuer or (where applicable) Guarantor breaches any of its obligations under the provisions of the Trust Deed or the Dated Subordinated Instruments or the Undated Instruments (as the case may be) of the relevant Series (other than any obligation for the payment of principal, redemption amount or interest on such Instruments), which failure (unless certified by the Trustee, in its opinion, to be incapable of remedy) continues for more than 30 days after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied have been given by certified or registered mail to the Issuer and (where applicable) Guarantor by the Trustee, then the Trustee may, subject as provided in Condition 7.10 below, at its discretion and without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the relevant Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sum representing or measured by reference to principal, premium, interest or any other amount on such Series of Dated Subordinated Instruments or Undated Instruments, sooner than the same would otherwise have been payable by it.

#### **General**

- 7.10 The Trustee shall not be bound to take any of the actions referred to in Conditions 7.04, 7.05, 7.07, 7.08 or 7.09, as the case may be, above unless, (a) it shall have been so directed by the Instrumentholder or Instrumentholders representing not less than twenty-five per cent. in aggregate principal amount outstanding of the Instruments of the relevant Series then outstanding and (b) it shall have been indemnified to its satisfaction as provided in the Trust Deed.

- 7.11 No Instrumentholder or Couponholder shall be entitled to take any of the actions referred to in Conditions 7.02, 7.04, 7.05, 7.07, 7.08 or 7.09, as the case may be, except that if the Trustee, having become bound to take such action, fails to do so within a reasonable period and such failure shall be continuing, then any Instrumentholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself take such action to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do.

- 7.12 Dated Subordinated Instruments

No remedy against the relevant Issuer, other than as specifically referred to in this Condition 7, shall be available to the Trustee or any Instrumentholder or Couponholder in respect of Instruments (other than Undated Instruments) which are specified in the relevant Final Terms as being subordinated, (i) for the recovery of amounts owing in respect of or arising under the Trust Deed, such Instruments or the relative Coupons or (ii) in respect of the breach of any other term or condition or other obligation binding on the Issuer under or in respect of the Trust Deed, such Instruments or the relative Coupons.

- 7.13 Undated Instruments

No remedy against the relevant Issuer, other than as specifically referred to in this Condition 7, shall be available to the Trustee or any Instrumentholder or Couponholder in respect of Undated Instruments which are specified in the relevant Final Terms as being subordinated, (i) for the recovery of amounts owing in respect of or arising under the Trust Deed, such Undated Instruments or the relative Coupons or (ii) in respect of the breach of any other term or condition or other obligation binding on the Issuer under or in respect of the Trust Deed, such Undated Instruments or the relative Coupons.

## 8 Taxation

8.01 All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the country of incorporation of the Issuer or of the relevant Guarantor(s) and/or, where the Issuer is Bank of Scotland, acting through its Australia branch, Australia and/or, if different, the country of tax residence of the Issuer or of the relevant Guarantor(s) (in the case of the Issuer, the "Issuer Taxing Jurisdiction" and, in the case of the Guarantor, the "Guarantor Taxing Jurisdiction") or, in each case, any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or by the administration or official interpretation thereof. In that event, the Issuer or the relevant Guarantor(s), as the case may be, will pay such additional amounts as may be necessary in order that the net amounts receivable by the Instrumentholders or, as the case may be, Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in the absence of such withholding or deduction; except that no such additional amounts shall be payable in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, the Instrumentholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with, in the case of payment being made by the Issuer, the Issuer Taxing Jurisdiction or, in the case of payment being made by the Guarantor, the Guarantor Taxing Jurisdiction or, in each case, any political subdivision thereof, other than the mere holding of such Instrument or Coupon;
- (ii) which would not be payable or due but for the failure to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with, in the case of payment by the Issuer, the Issuer Taxing Jurisdiction or, in the case of payment by the Guarantor, the Guarantor Taxing Jurisdiction, or, in each case, any political subdivision thereof required by any statute or regulation or by practice of the Issuer Taxing Jurisdiction or, as the case may be, the Guarantor Taxing Jurisdiction or, in each case, such political subdivision as a condition to or requirement of relief or exemption from such tax, duty, assessment or governmental charge, if compliance is possible pursuant to the provisions of any statute or regulation or by practice of the Issuer Taxing Jurisdiction or, as the case may be, the Guarantor Taxing Jurisdiction or, in each case, such political subdivision as a condition to or requirement of relief or exemption from such tax, duty, assessment or governmental charge;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

- (iv) (except in the case of Registered Instruments) presented for payment by or on behalf of an Instrumentholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument or Coupon to another Paying Agent in a Member State of the European Union;
- (v) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Instrumentholder or Couponholder would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of thirty days;
- (vi) where the Issuer is Bank of Scotland, acting through its Australia branch, to, or to a third party on behalf of, the Instrumentholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of the Instrumentholder or Couponholder being an associate of the kind described for the purposes of section 128F(6) of the Income Tax Assessment Act 1936 of Australia; or
- (vii) where the Issuer is Bank of Scotland, acting through its Australia branch, in such other circumstance as may be specified in the Final Terms.

8.02 For the purposes of these Conditions, the “Relevant Date” means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to the Instrumentholders and Couponholders, if any, notice to that effect shall have been duly given to the Instrumentholders of the relevant Series in accordance with Condition 15.

8.03 Any reference in these Conditions to principal, redemption amount, Arrears of Interest and/or interest in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

8.04 If while any of the Instruments remain outstanding the Issuer or the Guarantor becomes subject to any taxing jurisdiction other than the Issuer Taxing Jurisdiction or the Guarantor Taxing Jurisdiction respectively, references in these Conditions to the Issuer Taxing Jurisdiction or the Guarantor Taxing Jurisdiction shall be construed as references to the Issuer Taxing Jurisdiction or (as the case may be) the Guarantor Taxing Jurisdiction and/or such other jurisdiction.

8.05 The relevant Final Terms may set forth certain additional tax consequences to Instrumentholders or Couponholders of a particular Series.

## **9 Payments**

9.01 Payment of amounts (including accrued interest other than interest due against surrender of matured Coupons) due in respect of Bearer Instruments will, subject, in the case of Undated Instruments, to the provisions of Condition 3C.02 and 3C.03, be made against presentation and (save in the case of a partial redemption which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment) surrender of the relevant Instruments at the specified office of any of the Paying Agents.

9.02 Unless Condition 9.01 applies, payment of amounts due in respect of interest on the Bearer Instruments will, subject, in the case of Undated Instruments, to the provisions of Condition 3C.02 and 3C.03, be made:

- (i) in the case of Temporary Global Instruments or Permanent Global Instruments, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents and, in the case of a Temporary Global Instrument, upon due certification as required therein;
  - (ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside the United States; and
  - (iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons at the specified office of any of the Paying Agents outside the United States.
- 9.03 This Condition 9.03 does not apply to Australian Domestic Instruments. Payments of principal in respect of Registered Instruments (which for the purposes of this Condition shall include final instalment but not other Instalment Amounts) shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar.
- 9.04 This Condition 9.04 does not apply to Australian Domestic Instruments. Interest in respect of Registered Instruments which for the purpose of this Condition shall include all Instalment Amounts other than final instalment shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date").
- 9.05 Conditions 9.01 and 9.02 notwithstanding, payments of amounts due in respect of interest on Bearer Instruments will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due at all the specified offices of the Paying Agents outside of the United States is illegal or effectively precluded by exchange controls or other similar restrictions, and (b) such payment is permitted by applicable United States law. If payment of interest is so illegal or precluded but permitted by applicable United States law, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.
- 9.06 (i) If the business day convention specified hereon is other than the Modified Following Business Day Convention, and the due date for payment of any amount due (whether in respect of principal, redemption amount, interest or otherwise) in respect of any Instrument is not a Business Day, then the Instrumentholder in respect thereof will not be entitled to payment thereof until the next day which is a Business Day (including, if such payment is to be made by transfer to a designated account rather than by cheque in the place where the relevant designated account is located) and no further payment shall be due in respect of such delay save in the event that there is a subsequent failure to pay in accordance with these Conditions; (ii) If the due date for payment of any amount due (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Instruments is not a Business Day, then the Instrumentholder in respect thereof will not be entitled to payment thereof until the next day which is a Business Day (including, in respect of any payment which is to be made by transfer to a designated account rather than by cheque, in the place where the relevant designated account is located), unless the date for such payment would thereby fall into the next calendar month, in which event such date for payment shall be brought forward to the immediately preceding Business Day, and no further payment shall be due in respect of such delay as is referred to above save in the event that there is a subsequent failure to pay in accordance with these Conditions.
- 9.07 Each Definitive Instrument initially delivered with Coupons attached thereto should be presented and (save in the case of partial payment which includes, in the case of an Instalment Instrument,

payment of any instalment other than the final instalment), surrendered for final redemption together with all unmatured Coupons appertaining thereto, failing which:

- (i) in the case of Definitive Instruments which bear interest at a fixed rate or rates, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the redemption amount paid bears to the total redemption amount due) (excluding, for this purpose, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time prior to the fifth anniversary of the Relevant Date (as defined in Condition 8) for the payment of such Coupon;
- (ii) in the case of Definitive Instruments which bear interest at, or at a margin above or below, a floating rate, all unmatured Coupons (excluding, for this purpose, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
- (iii) in the case of Definitive Undated Instruments or long dated Instruments to which a Talon was attached upon issue, all unmatured Talons shall become void and no exchange for Coupons shall be made thereafter in respect of them.

9.08 In relation to Undated Instruments or long dated Instruments to which a Talon was attached upon issue, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.

9.09 Payments of amounts due (whether in respect of principal, redemption amount, interest or otherwise) in respect of Instruments will be made by cheque or by transfer in the relevant currency to an account specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

9.10 The Australian Paying Agent will act as paying agent for Australian Domestic Instruments pursuant to the Australian Paying Agency Agreement. For the purposes of this Condition 9.10, in relation to Australian Domestic Instruments, "Business Day" has the meaning given in the Australian Paying Agency Agreement.

Payments of principal and interest will be made in Sydney in Australian dollars to the persons registered in the Australian Register on the relevant Record Date (as defined below) as the holders of such Australian Domestic Instruments. Payments in respect of each Australian Domestic Instrument will be made:

- (i) if the Australian Domestic Instrument is in the Austraclear System, by crediting on the relevant Interest Payment Date, Maturity Date or other date on which payment is due the amount then due to the account of the Instrumentholders in accordance with the Austraclear Regulations; and
- (ii) if the Australian Domestic Instrument is not in the Austraclear System, by crediting on the Interest Payment Date, Maturity Date or other date on which payment is due, the amount then due to an account in Australia previously notified by the Instrumentholder(s) of the Australian Domestic Instrument to the Issuer and the Australian Paying Agent.

Payments will for all purposes be taken to be made when the Australian Paying Agent gives irrevocable instructions in Sydney for the making of the relevant payment by electronic transfer, being instructions which would be reasonably expected to result, in the ordinary course of banking business, in the funds transferred reaching the account of the Instrumentholder on the same day as the day on which the instructions are given.

If a payment is due under an Australian Domestic Instrument on a day which is not a Business Day, the date for payment will be adjusted according to the Business Day Convention applicable to that Australian Domestic Instrument. If payment is to be made to an account on a Business Day on which banks are not open for general banking business in the city in which the account is located, the Instrumentholder is not entitled to payment of such amount until the next Business Day on which banks in such city are open for general banking business and is not entitled to any interest or other payment in respect of any such delay.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto. Neither the Issuer, the Australian Registrar nor the Australian Paying Agent shall be liable to any Instrumentholder or other person for any commissions, costs, losses or expenses in relation to or resulting from such payments.

In this Condition 9.10 in relation to Australian Domestic Instruments, "Record Date" means, in the case of payments of principal or interest, the date which is the eighth calendar day before the due date of the relevant payment of principal or interest.

## **9A. Redenomination**

9A.01 Where Redenomination is specified in the relevant Final Terms as being applicable, the Issuer, without the consent of the Instrumentholders or the Couponholders, on giving at least 30 days' prior notice to the Instrumentholders (in accordance with Condition 15) and to the Principal Paying Agent and, in the case of a Temporary Global Instrument or a Permanent Global Instrument, to Euroclear or Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, may elect that, with effect from the Redenomination Date (as defined below) specified in the notice, the Instruments shall be redenominated in Euro.

### **9A.2 The election will have effect as follows:**

- (i) each Specified Denomination (as defined below) and, in the case of Fixed Rate Instruments, each amount specified on the Coupons will be deemed to be denominated in such amount of Euro as is equivalent to its denomination or the amount of interest so specified in the Specified Currency (as defined below) at the Established Rate (as defined below), rounded down to the nearest Euro 0.01;
- (ii) after the Redenomination Date (as defined below), all payments in respect of the Instruments and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Instruments to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee, or at the option of the payee, by a Euro cheque;
- (iii) if the Instruments are Fixed Rate Instruments and interest for any period ending on or after the Redenomination Date is required to be calculated for a period of less than one year, it will be calculated on the basis described as "Actual/Actual (Bond)" in the definition of Day Count Fraction in Condition 5E;

- (iv) if the Instruments are Floating Rate Instruments the relevant Final Terms will specify any relevant changes to the provisions relating to interest; and
- (v) such other changes shall be made to these Conditions as the Issuer may decide, with the agreement of the Trustee, and as may be specified in the notice, to conform them to conventions then applicable to Instruments denominated in Euro or to enable the Instruments to be consolidated with Other Instruments (as defined below) whether or not originally denominated in the Specified Currency or Euro. Any such other changes will not take effect until after they have been notified to the Instrumentholders in accordance with Condition 15.

Neither the Issuer nor any Paying Agent will be liable to any Instrumentholder or Couponholder or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of Euro or any currency conversion or rounding effected in connection therewith.

## **9B. Exchangeability**

Where Exchangeability is specified in the relevant Final Terms as being applicable, the Issuer may without the consent of the Instrumentholders or the Couponholders, on giving at least 30 days' prior notice to the Instrumentholders in accordance with Condition 15, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Instruments as it may specify in the notice, the Instruments shall be exchangeable for Instruments expressed to be denominated in Euro in accordance with such agreements as the Issuer may decide, with the approval of the Trustee and as may be specified in the notice, including arrangements under which Coupons unmatured at the date so specified become void.

## **9C. Definitions**

In these Conditions, the following expressions have the following meanings:

- (i) "Established Rate" means the rate for conversion of the Specified Currency (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into Euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty establishing the European Community;
- (ii) "Other Instruments" means, at any time, any one or more Series of other Instruments of the Issuer which have the same or substantially the same Conditions (as then in effect and which have not lapsed and/or the rights in respect of which have not been exercised) as the Instruments (other than in relation to the currency of original denomination and/or denomination and/or the Conditions relating to business days or interest accrual bases and/or the listing authority, the stock exchange(s) and/or quotation system(s), if any, on which such Instruments are listed, traded and/or quoted and/or the clearing system(s) on which such Instruments are cleared and settled and/or Redenomination into Euro and/or notices);
- (iii) "Redenomination Date" means (in the case of interest bearing Instruments) any date for payment of interest under the Instruments or (in the case of non-interest bearing Coupon Instruments) any date, in each case specified by the Issuer in the notice given to the Instrumentholders pursuant to Clause 9A.1 or Clause 9B above and which falls on or after such date as when the country of the Specified Currency participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community;
- (iv) "Specified Denomination" means the denomination specified in the relevant Final Terms.

## **10 Prescription**

10.01 Subject as provided in Condition 9.05(i), claims against the Issuer and/or the Guarantor in respect of Instruments or Coupons will be prescribed unless the relevant Instrument or Coupon is

presented for payment or claim made within ten years (or, in the case of claims in respect of interest, five years) after the Relevant Date (as defined in Condition 8.02) for payment thereof.

- 10.02 In relation to Undated Instruments or long dated Instruments to which a Talon was attached upon issue, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9.05 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10.

## **11 The Paying Agents**

The initial Paying Agents, Registrar, the Australian Registrar, the Australian Paying Agent and Transfer Agents and their initial specified offices are specified below. HBOS as Guarantor (on behalf of itself, Bank of Scotland as Guarantor and the Issuers) reserves the right at any time to vary or, with the prior approval of the Trustee, terminate the appointment of any Paying Agent (including the Principal Paying Agent), the Registrar, the Australian Registrar, Australian Paying Agent or any Transfer Agent and to appoint additional or other Paying Agents, Transfer Agents, an Australian Registrar, Australian Paying Agent or a Registrar and each of the Paying Agents, the Registrar, the Australian Registrar, the Australian Paying Agent or any Transfer Agent may at any time resign from office provided that the Issuers will at all times maintain (i) a Principal Paying Agent (ii) a Paying Agent with a specified office outside the UK (iii) a Registrar in relation to Registered Instruments or, in the case of Australian Domestic Instruments, an Australian Registrar (iv) a Transfer Agent in relation to Registered Instruments (other than an Australian Domestic Instrument) (v) so long as any Instruments are listed on the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market and/or any other listing authority, stock exchange and/or quotation system, a Paying Agent with a specified office in London and/or in such other place as may be required by such other listing authority, stock exchange and/or quotation system (vi) in the circumstances described in Condition 9.03, a Paying Agent with a specified office in New York City, and (vii) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

The Paying Agents reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Paying Agents will be notified promptly to the Instrumentholders.

## **12 Replacement of Instruments**

This Condition 12 does not apply to Australian Domestic Instruments. If any Instrument or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, (in the case of Bearer Instruments, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Instrumentholders subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments are listed, traded and/or quoted upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Principal Paying Agent may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered.

### **13 Meetings of Instrumentholders; Modification; Waiver and Substitution of Debtor**

- 13.01 The Trust Deed contains provisions, including quorum requirements, for convening meetings of the Instrumentholders (other than holders of Australian Domestic Instruments, as to which see Condition 13.02 below) of any Series to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification or waiver of any provision of these Conditions applicable to any Series of Instruments (other than Australian Domestic Instruments) or of the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Instrumentholders (other than holders of Australian Domestic Instruments) of more than one Series where the Trustee so decides.
- 13.02 The Trustee may (subject to certain exceptions) without the consent of the Instrumentholders or Couponholders of any Series (i) agree to any modification of these Conditions or of the Trust Deed which, in any case, in the opinion of the Trustee, is not materially prejudicial to the interests of such Instrumentholders or is of a formal, minor or technical nature or which is made to correct a manifest error; or (ii) waive or authorise any breach or proposed breach by the Issuer or any Guarantor of any of the provisions of these Conditions applicable to such Instruments or the Trust Deed or determine that any event which is, or with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement could be, a Default shall not be treated as such provided that, in the Trustee's opinion, the interests of such Instrumentholders will not be materially prejudiced thereby. Any such modification, waiver, authorisation or determination shall be binding on such Instrumentholders and of the related Couponholders and, unless the Trustee agrees otherwise, shall be notified to such Instrumentholders as soon as practicable thereafter. No modification of these Conditions or the Trust Deed insofar as it relates to the Conditions of any Series of Dated Subordinated Instruments or Undated Instruments or to any provision of the Trust Deed applicable thereto, shall be effected unless the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled therefor and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto.
- 13.03 If, in relation to any Series of Instruments, so requested by the Issuer and the Guarantor, the Trustee shall, provided that:
- (i) immediately after giving effect to such transaction it shall be satisfied that no Default and no event which, with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement, could be a Default shall have happened and be continuing;
  - (ii) at the time of any such transaction such Series of Instruments thereupon becomes or remains, as the case may be, unconditionally and irrevocably guaranteed jointly and severally by HBOS (except where HBOS is the new principal debtor in which case no Guarantee shall apply) and Bank of Scotland (except where Bank of Scotland is the new principal debtor in which case only the HBOS Guarantee shall apply) on a basis (subordinated or unsubordinated) which is the same as that of the Series of Instruments or, if such Series of Instruments is guaranteed, of the Guarantee thereof;
  - (iii) certain other conditions are satisfied; and
  - (iv) subject to such amendment of the Trust Deed and the execution of such documents as the Trustee may require, but without the consent of the Instrumentholders or Couponholders of the relevant Series, agree to:

- (I) the assumption by a Guarantor of the obligations of the Issuer as principal debtor under the Trust Deed in respect of any Series of Instruments (and, in relation to Instruments which are guaranteed on a subordinated basis, those obligations shall be assumed by such Guarantor on a subordinated basis which is equivalent to that of the Guarantee of such Instruments); or
- (II) the assumption by a Subsidiary or another Subsidiary (as defined in the Trust Deed) of HBOS of the obligations of the Issuer as principal debtor under the Trust Deed in respect of such Instruments.

The Trust Deed provides that any such assumption shall be notified to such Instrumentholders in accordance with Condition 15. No such assumption or substitution shall be effected in relation to any Series of Dated Subordinated Instruments or Undated Instruments, unless the Issuer has notified the FSA of its intention to do so at least one month (or such other period, longer or shorter, as the FSA may then require or accept) prior to the date scheduled therefor and no objection thereto has been raised by the FSA or (if required) the FSA has provided its consent thereto.

The Issuer and the Guarantor may, without the consent of the Instrumentholders or Couponholders of any Series, consolidate with, merge or amalgamate into or transfer their respective assets substantially as an entirety to, any corporation organised, in the case of the Issuer, under the laws of the country of incorporation of the Issuer and, in the case of a Guarantor, under the laws of the UK, or, in either case, any political subdivision thereof, provided that (i) immediately after giving effect to such transaction no Default and no event which, with the giving of notice and/or the lapse of time and/or the issuing of any certificate and/or the fulfilment of any other requirement, could be a Default shall have happened and be continuing and (ii) unless the Issuer or the relevant Guarantor, as the case may be, is the surviving entity, the Issuer or, as the case may be, the relevant Guarantor shall procure that the surviving or transferee company assumes its obligations as Issuer or, as the case may be, Guarantor under the Trust Deed and all of the Instruments of the relevant Series, in place of the Issuer or, as the case may be, the relevant Guarantor (iii) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of the relevant Guarantor is fully effective on the same basis in relation to the obligations of such successor or transferee company and (iv) certain other conditions are met. Upon the assumption of the obligations of the Issuer or the relevant Guarantor by such surviving or transferee company, the predecessor Issuer or Guarantor, as the case may be, shall (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the Instruments of the relevant Series or any Coupons appertaining thereto. Any such assumption shall be subject to the relevant provisions of the Trust Deed and to such amendment thereof and such other conditions as the Trustee may require. The Trust Deed provides that any such assumption shall be notified to such Instrumentholders in accordance with Condition 15.

- 13.04 In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any proposed modification, waiver, authorisation, determination or assumption as aforesaid) in relation to any Series of Instruments, the Trustee shall have regard to the interests of such Instrumentholders as a class and, in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Instrumentholders or Couponholders resulting from their being, for any purpose, domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Instrumentholder or Couponholder shall, in connection with any such assumption as aforesaid, be entitled to claim from the Issuer or any Guarantor any indemnification or payment in respect of any tax consequence of any such substitution upon

individual Instrumentholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

- 13.05 In the case of Australian Domestic Instruments each Deed Poll contains provisions for convening meetings of the Instrumentholders of the relevant Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Australian Domestic Instruments to which that Deed Poll relates or certain provisions of the Australian Registry Services Agreement, the Australian Paying Agency Agreement or the relevant Final Terms. The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with a Deed Poll, if to do so could not reasonably be expected to be prejudicial to the interests of the Instrumentholders or pursuant to an Extraordinary Resolution.

## **14 The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from instituting proceedings against the Issuer and the Guarantor unless indemnified to its satisfaction.

## **15 Notices to Instrumentholders**

Notices to the Instrumentholders of Registered Instruments shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, notices regarding Australian Domestic Instruments shall also be published in a leading daily newspaper of general circulation in Australia. It is expected that such notices will normally be published in *The Australian Financial Review*. Any such notice will be deemed to have been given on the date of such publication. Notices to Instrumentholders of Bearer Instruments will, save where another means of effective communication has been specified in the relevant Final Terms, be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, if published in a leading English-language newspaper having general circulation in Europe (or, if permitted by the relevant stock exchange, in the case of a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, any other relevant clearing system which is so specified in the applicable Final Terms, for communication by them to the persons shown in their respective records as having interests therein). In any event, a copy of each notice given to Instrumentholders in accordance with this Condition 15 should also be sent to Euroclear, Clearstream, Luxembourg and any other relevant clearing system which is so specified in the applicable Final Terms for their information. The Issuer shall also ensure that notices are duly published in compliance with the requirements of the listing authority, stock exchange and/or quotation system on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of first such publication) or, as the case may be, on the fourth Business Day after the date of such delivery.

## **16 Further Issues and Joining and Releasing of Issuers**

- 16.01 The Issuer may, from time to time without the consent of the Instrumentholders or Couponholders of any Series, create and issue further instruments having terms and conditions the same as those of the Instruments of such Series or the same except for the amount of the first payment of interest (if any) and/or the denomination thereof and (where applicable) having the benefit of the Guarantee, which may be consolidated and form a single Series with the outstanding Instruments of such Series.

- 16.02 HBOS may designate any Subsidiary (as defined in the Trust Deed) of itself to become an Issuer of Instruments under the Trust Deed (or the Issuer of Australian Domestic Instruments under the Deed Poll). As provided in the Trust Deed or the Deed Poll, as the case may be, a Subsidiary of HBOS which is to become an Issuer of Instruments shall become such under the terms of a supplemental deed in or substantially in the form scheduled to the Trust Deed or the Deed Poll, as the case may be, (or in such other form as may be approved by the Trustee) (which shall take effect in accordance with its terms) whereby such Subsidiary agrees to be bound as an Issuer under each of the Trust Deed, the Deed Poll, the Paying Agency Agreement, the Australian Registry Services Agreement and the Australian Paying Agency Agreement as the case may be, all as more fully provided in the Trust Deed or the Deed Poll, as the case may be.
- 16.03 Any Issuer may cease to be a party to the Trust Deed as such (under the terms of appropriate release documentation to that effect as provided in the Trust Deed) Provided that (i) a Guarantor or another Subsidiary of HBOS assumes the obligations of such Issuer in respect of any Instruments issued by it and then outstanding pursuant to the provisions of the Trust Deed described in Condition 13.03; and (ii) the Trustee does not have actual knowledge or express notice that a Default, or any event which, with the giving of notice and/or lapse of time and/or the issuing of a certificate and/or the fulfilment of any other requirement, could be a Default, has occurred and is continuing.

## **17 Law and Jurisdiction**

- 17.01 The Instruments (other than Australian Domestic Instruments), the Trust Deed and the Paying Agency Agreement are governed by, and shall be construed in accordance with, English law.
- 17.02 Each of the Issuers and the Guarantors has, in the Trust Deed, (i) agreed, for the benefit of the Trustee, the Instrumentholders and the Couponholders, that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Trust Deed or the Instruments or Coupons (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submitted to the jurisdiction of such courts, (ii) waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and (iii) agreed not to claim that any such court is not a convenient or appropriate forum. Each of HBOS and Bank of Scotland has, in the Trust Deed, agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bank of Scotland plc, 33 Old Broad Street, London EC2N 1HZ, Attention: Legal Department. Nothing contained herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law. The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee, the Instrumentholders or the Couponholders, or any of them, to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.
- 17.03 The Australian Domestic Instruments, the Deed Poll, the Australian Registry Services Agreement and the Australian Paying Agency Agreement will be governed by, and construed in accordance with, the laws in force in New South Wales, Australia, except in relation to Australian Domestic Instruments, the provisions of these Conditions governing subordination (including Condition 3) and the provisions of the Trust Deed governing subordination (including Clause 5 (Subordination) thereof), which shall be governed by, and construed in accordance with, English law. In the case of Australian Domestic Instruments, the Issuers and the Guarantors have irrevocably agreed for the benefit of Instrumentholders that the courts of New South Wales, Australia and courts of

appeal from them are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Australian Domestic Instruments, the Deed Poll, the Australian Registry Services Agreement or the Australian Paying Agency Agreement and that accordingly any suit, action or proceedings arising out of or in connection with the Australian Domestic Instruments, the Deed Poll, Australian Registry Services Agreement or the Australian Paying Agency Agreement (together referred to as "Australian Proceedings") may be brought in such courts.

The Issuers and the Guarantors have each irrevocably waived any objection which it may have now or hereafter to the laying of the venue of any Australian Proceedings in any such court and any claim that any such Australian Proceedings have been brought in an inconvenient forum and has further irrevocably agreed that a judgment in any such Australian Proceedings brought in the courts of New South Wales and courts of appeal from them shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

For so long as any Australian Domestic Instruments are outstanding, the relevant Issuer and the relevant Guarantor(s) (if any) will appoint an agent to accept service of process on its behalf in New South Wales in respect of any legal action or proceedings as may be brought in the courts of New South Wales, Australia or the federal courts of Australia, such agent being as specified in the relevant Final Terms. In the event of such agent ceasing to act, the relevant Issuer or Guarantor(s) will immediately appoint another agent in Sydney.

## BANK OF SCOTLAND PLC

### HBOS Group Reorganisation Act

On 17 September 2007 (the "**Effective Date**"), in accordance with the HBOS Group Reorganisation Act, The Governor and Company of the Bank of Scotland:

- (i) was registered as a public limited company under the Companies Act;
- (ii) changed its name to Bank of Scotland plc; and
- (iii) succeeded, as universal successor, to and has assumed all of the business, assets and liabilities of Halifax plc, Capital Bank plc and HBOS Treasury Services plc (the "Affected Entities") and, notably, to any existing obligations of the Affected Entities.

This series of transactions is referred to as the "HBOS Group Reorganisation".

The HBOS Group Reorganisation had, on the Effective Date, a significant impact on the consolidated balance sheet of the Bank of Scotland plc from the inclusion of the assets and liabilities of Halifax plc. However, the transfer of the business, assets and liabilities of Capital Bank plc and HBOS Treasury Services plc did not have any significant impact as both were wholly-owned subsidiaries of The Governor and Company of the Bank of Scotland and remain wholly owned subsidiaries of Bank of Scotland plc.

Bank of Scotland plc together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) are collectively referred to as the "Bank of Scotland group". The registered and head office of Bank of Scotland plc is located at The Mound, Edinburgh EH1 1YZ, Scotland, with telephone number 0870 600500.

### The initial activity of The Governor and Company of the Bank of Scotland

The Governor and Company of the Bank of Scotland was established by an Act of the Parliament of Scotland on 17 July 1695, is a United Kingdom clearing bank with its headquarters in Edinburgh and an "authorised person" under the FSMA. As at 31 December 2006, it operated from branch outlets in Scotland and England, overseas branches in Amsterdam, Frankfurt, Madrid, New York City, Paris and Stockholm and representative offices in Boston, Chicago, Dallas, Houston, Los Angeles, Minneapolis and Seattle. It is a member of the British Bankers' Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed The Governor and Company of the Bank of Scotland's right to issue bank notes in Scotland. At 31 December 2006, circulation of such notes was approximately £857 million. The issuance and circulation of these notes will remain unchanged following the HBOS Group Reorganisation Act.

### The initial activities of the Affected Entities

#### ***HBOS Treasury Services plc***

HBOS Treasury Services plc, was registered in England and Wales in the register of companies on 26 February 1992, as Bank of Scotland Treasury Services PLC (registered number 2692890), a public limited company under the Companies Act, for the purpose of taking over and developing The Governor and Company of the Bank of Scotland's treasury operations. Its registered office is located at 33 Old Broad Street, London EC2N 1HZ, England.

#### ***Halifax plc***

Halifax Building Society was founded in 1853 as the Halifax Permanent Benefit and Investment Society. In 1928 it merged with Halifax Equitable Building Society to form Halifax Building Society. On 2 June 1997, Halifax Building Society, at the time the United Kingdom's largest building society, transferred its business to Halifax plc (registered number 02367076), which on that date became authorised under the UK Banking Act

1987. Upon completion of the transfer, Halifax Building Society ceased to exist. On 1 June 1999, through a scheme of arrangement, Halifax Group plc acquired and became the holding company of Halifax plc. On 10 September 2001, Halifax Group plc and The Governor and Company of the Bank of Scotland were acquired by a new holding company, HBOS plc. On 1 July 2002, Halifax plc became a directly held undertaking of HBOS plc having formerly been a subsidiary undertaking of Halifax Group plc. Its registered office is located at Trinity Road, Halifax, West Yorkshire, HX1 2RG.

### ***Capital Bank plc***

Capital Bank plc, was incorporated in England and Wales on 1 February 1945 (registered number 392902) as Improved Finances Limited. On 3 September 1948, the name of the company was changed to North West Securities Limited. On 23 September 1958, the company became a wholly owned subsidiary of The Governor and Company of the Bank of Scotland. On 30th March 1989, banking status was conferred on the company by the Bank of England, the company was re-registered as a public limited company and its name was changed to NWS Bank plc. On 1 September 1997, the name of the company was changed to Capital Bank plc. Its registered office is located at Capital House, Queens Park Road, Handbridge, Chester CH88 3AN.

### **Business**

The Bank of Scotland Group is engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally.

The Bank of Scotland Group's products and services can be categorised into the following business divisions:

- Retail;
- Corporate;
- International; and
- Treasury.

### ***Retail***

The Retail division of the Bank of Scotland Group provides financial services to over 23 million customers through a broad distribution base (ranging from branches to direct mail, telephone and internet services). Its range of multi-branded products includes personal and business banking services providing mortgages, savings, bank accounts, personal loans and credit cards.

Mortgages are provided by Bank of Scotland plc under the Halifax, Intelligent Finance, Birmingham Midshires and Bank of Scotland brands and mortgages provided under The Mortgage Business brand name will be provided by The Mortgage Business plc, a subsidiary of Bank of Scotland plc.

Bank of Scotland plc offers savings products through the Halifax, Bank of Scotland, Birmingham Midshires and Intelligent Finance brands catering for all segments of the savings market, including children's accounts, tax-free, fixed rate and regular savings accounts. Bank accounts range from full facilities current accounts to basic social banking facilities.

Bank of Scotland plc offers personal loans and credit cards through the Halifax and Bank of Scotland brands. Credit cards are also provided through a host of affinity-branded credit cards such as charity cards, where a proportion of income earned is donated to the charity. The Retail division of Bank of Scotland plc also distributes HBOS Group's insurance and investment products on behalf of the HBOS

Group's Insurance & Investment division and participates in a number of joint ventures, such as Sainsbury's Bank.

### **Corporate**

The Bank of Scotland Group provides a range of banking services to the corporate business sector. Its principal market is medium-sized and large-sized UK and European based businesses. The division comprises a number of relationship banking and specialist lending teams. Their responsibilities include the provision of term loans, asset finance, motor finance, multi-currency loans and deposits, mezzanine funding, equity investment, fund investment, joint venture partnerships, working capital finance, project and specialist finance, acquisition finance and syndicated lending. The key objective of these teams is to expand and strengthen the HBOS Group's corporate market share by pursuing a relationship and partnership driven asset class approach and delivering specialist services to existing and new customers.

The Corporate division's real estate teams have experience in commercial property finance and offer a range of funding options. The Corporate division's commercial bank is a diverse business focusing on the needs of medium and large businesses. The integrated, structured and acquisition finance teams operate in the leveraged buy-out market, providing a range of financing vehicles to their customers. The private equity business has a reputation for innovative deal making and additionally invests in a number of private equity funds. The motor business finances car fleets, vans and buses. The asset finance teams cover a diverse market sector and are engaged in financing or owning tangible assets ranging from oil tankers, trains and airplanes to photocopiers, IT and vending machines. The energy and environmental team focuses on supplying funding to the renewable power generation sector primarily across Europe. The oil and gas team deliver upstream funding for independent oil companies together with niche downstream project financing. The infrastructure and housing finance teams provide debt funding solutions and risk capital investments in economic and social infrastructure projects via government PFI and PPP projects. The telecoms and media team is dedicated to the provision of funding to corporate entities and financial sponsors across Europe.

### **International**

The International operations division of the Bank of Scotland group consists of three operating divisions in Ireland, Australia and Europe & North America ("**ENA**"). Bank of Scotland (Ireland) Limited focuses on providing banking solutions to small and medium-sized enterprises in Ireland and has recently begun to roll out its full service retail offering. HBOS Australia Pty Limited operates in Australia under the four separate brands of BankWest, Capital Finance, St Andrew's and BOS International, to offer a full range of financial solutions to retail and corporate customers.

ENA encompasses the group's interests in North America and covers a range of financial services. The division operates through a range of businesses including EUBOS (Netherlands) an online and intermediary mortgage business, with retail activities consisting of Banco Halifax Hispania, an expanding branch network in Spain.

The Bank of Scotland group operates principally within the United Kingdom, Ireland and Australia.

### **Treasury**

Bank of Scotland plc, Treasury Division, provides centralised wholesale multi-currency funding, liquidity management and treasury services to HBOS and its subsidiary undertakings in the United Kingdom, Australia, Ireland, and the United States. It manages the market risk arising from the HBOS Group's Retail and

Corporate Divisions. It operates in the world's foreign exchange and money markets and also provides a range of treasury services to certain of the HBOS Group's customers from its office in London and its branches in Glasgow, Grand Cayman, New York and Australia.

Bank of Scotland plc, Grand Cayman branch operates under license from the Cayman Islands Monetary Authority. Bank of Scotland plc, Treasury Division, New York branch operates under the supervision of the Office of the Comptroller of the Currency and oversight of the Board of Governors of the Federal Reserve System. Bank of Scotland plc has been registered as a foreign company in Australia and Bank of Scotland plc, Australia branch operates under authority from the Australian Prudential Regulation Authority to carry on banking business in Australia. An Australian Financial Services license from the Australian Securities and Investments Commission enables it to provide financial product advice, dealing services and market making services in connection with foreign exchange, derivatives, securities and certain other financial products.

Trading transactions are undertaken to accommodate customer and HBOS Group requirements, whilst proprietary activity is maintained within approved limits. Bank of Scotland plc Treasury Division manages the treasury investment portfolio for the HBOS Group and leads the debt capital issuance and asset securitisation activities of the HBOS Group.

### **Major Shareholder**

Bank of Scotland plc is a wholly owned subsidiary of HBOS.

### **Principal Bank of Scotland plc Subsidiaries**

Bank of Scotland plc is the holding company of the Bank of Scotland group. The following table shows the principal direct and indirect subsidiary undertakings of Bank of Scotland plc.

Company	Total % of ordinary share capital held (directly or indirectly) by Bank of Scotland plc
Bank of Scotland (Ireland) Limited	100
HBOS Australia Pty Limited	100
Bank of Western Australia Limited	100

## MANAGEMENT OF BANK OF SCOTLAND PLC

### Board of Directors of Bank of Scotland plc

<u>Name</u>	<u>Position in Bank of Scotland plc</u>
Lord Stevenson of Coddenham	Governor
Sir Ronald Garrick	Deputy Governor
Colin Matthew	Treasurer
Peter Cummings	Executive Director
Jo Dawson	Executive Director
Andy Hornby	Executive Director
Philip Gore-Randall	Executive Director
Phil Hodgkinson	Executive Director
Dan Watkins	Executive Director
Richard Cousins	Non-executive Director
Charles Dunstone	Non-executive Director
Anthony Hobson	Non-executive Director
Karen Jones	Non-executive Director
John E. Mack	Non-executive Director
Coline McConville	Non-executive Director
Kate Nealon	Non-executive Director

*The business address for the Board is The Mound, Edinburgh EH1 1YZ.*

#### **Conflicts of Interest**

No potential conflicts of interest exist at the date of this Prospectus between the duties of the Directors

to Bank of Scotland plc and their private interests or other duties.

**PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF INSTRUMENTS WITH A  
DENOMINATION OF LESS THAN €50,000 TO BE ADMITTED TO TRADING ON AN EU REGULATED  
MARKET AND/OR OFFERED TO THE PUBLIC IN THE EUROPEAN ECONOMIC AREA**

**Final Terms dated**

**[HBOS PLC]**

**[BANK OF SCOTLAND PLC (acting through its [Treasury Division, London office/Australia branch]) ]**

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments]

[Guaranteed by [Name of Guarantor(s)]]

**under the US\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc and Bank  
of Scotland plc (acting through its Treasury Division, London office and Australia branch )**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated 1 May 2007 (the "**Prospectus**") [and the supplemental Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and in the case of each of them, at the specified office of the Principal Paying Agent.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] [Information Memorandum] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [•]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated 1 May 2007 [and the supplemental Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] [Information memorandum] dated [original date] [and the supplemental Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the [Prospectus] [Information Memorandum] dated [original date] [and the Prospectus dated 1 May 2007] [and the supplemental Prospectuses dated [•] and [•]]. The [Prospectus] [and the Information Memorandum] [and the supplemental Prospectuses] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and, in the case of each of them, at the specified office of the Principal Paying Agent.

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

1. [(i)] Issuer: [•]  
 [(ii)] Guarantor[s]: HBOS plc [and Bank of Scotland plc]
2. [(i)] Series Number: [•]  
 [(ii)] Tranche Number: [•]  
*(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible.)*
3. Specified Currency or Currencies: [•]
4. Aggregate Principal Amount:  
 [(i)] Series: [•]  
 [(ii)] Tranche: [•]
5. Issue Price: [•] per cent. of the Aggregate Principal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. Specified Denominations: [•] *[(If the Instruments have a maturity of less than one year from the date of their issue and the Issuer is HBOS, the minimum denomination must be £100,000 or its equivalent in any other currency).]*
7. [(i)] Issue Date: [•]  
 [(ii)] Interest Commencement Date: [•]
8. Maturity Date: *[specify date or (for floating rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: [Interest-Bearing/Non-Interest-Bearing.] [If interest-bearing, specify which of Conditions 5A (Fixed Rate), 5B (Floating Rate) or 5C (Other Rates) is applicable]  
 [•% Fixed Rate]  
 [[specify reference rate]+/-•% Floating Rate]  
 [Index Linked Interest]  
 [Other (specify)]  
 (further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency]  
[Partly Paid]  
[Instalment]/[other (*specify*)]  
*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of Commission Regulation (EC) No. 809/2004 will be prepared.)*
11. Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Instruments into another interest or redemption/ payment basis*]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[*Further particulars specified below*]
13. [(i)] Status of the Instruments: [Unsubordinated/[Undated]/Subordinated][*Specify which of Conditions 3A (unsubordinated Instruments), 3B.02 (subordinated Instruments (other than Undated Instruments) or 3C (subordinated Undated Instruments) applies. Where Condition 3C applies, specify if either Equity Accounting or Financial Liability Accounting applies.*]
- [(ii)] Status of the Guarantee: [Senior/[Undated]/Subordinated]] [*Specify which of Conditions 4A (unsubordinated guarantee), 4B (subordinated guarantee other than in respect of undated Instruments) or 4C (subordinated guarantee in respect of undated Instruments) applies.*]
- [(iii)] [Date [Board] approval for issuance of Instruments [and Guarantee] obtained: [•] [and [•], respectively]](*N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments or related Guarantee*)]
14. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - (i) Interest Period(s): [•]
  - (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Relevant Financial Centre(s) for the definition of "Business Day"]/not adjusted]
  - (iii) Fixed Coupon Amount[s]: [•] per [•] in principal amount
  - (iv) Broken Amounts: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the fixed coupon amount(s)]*
  - (v) Day Count Fraction: [30/360 / Actual/Actual (Bond) / Actual/365 / Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / Actual/Actual ([ICMA]/ISDA)/ RBA Bond Basis / other]
  - (vi) Determination Dates: [•] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))*
  - (vii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/give details]
16. **Floating Rate Instrument Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [•]
  - (ii) Interest Payment Dates: [•]
  - (iii) Business Day Convention: [Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other *(give details)*]
  - (iv) Relevant Financial Centre(s): [•]

- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
  - (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent): [•]
  - (vii) Screen Rate Determination [•]
    - Reference Rate: [•]
    - Interest Determination Date(s): [•]
    - Relevant Screen Page: [•]
  - (viii) ISDA Determination:
    - Floating Rate Option: [•]
    - Designated Maturity: [•]
    - Reset Date: [•]
  - (ix) Margin(s): [+/-][•] per cent. per annum
  - (x) Minimum Rate of Interest: [•] per cent. per annum
  - (xi) Maximum Rate of Interest: [•] per cent. per annum
  - (xii) Day Count Fraction: [•]
  - (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on floating rate Instruments, if different from those set out in the Conditions: [•]
17. **Non Interest Bearing Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) [Amortisation/accrual] yield: [•] per cent. per annum
  - (ii) Reference price: [•]
  - (iii) Any other formula/basis of determining amount payable: [•]

18. **Index Linked Interest Instruments** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula/other variable: [UK RPI, Sub paragraph [(i)(a)/(i)(b)/(i)(c)] of the definition of "Index" as set out in condition 5G.01 shall apply.][*other - give or annex details*]
- (ii) Determination Agent responsible for calculating the interest due: [•]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Interest Determination Date(s): [•]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Interest or calculation period(s): [•]
- (vii) Interest Payment Dates: [•]
- (viii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*other (give details)*]
- (ix) Relevant Financial Centre(s): [•]
- (x) Minimum Rate/Amount of Interest: [•] per cent. per annum
- (xi) Maximum Rate/Amount of Interest: [•] per cent. per annum
- (xii) Day Count Fraction: [•]
- (xiii) Other terms relating to the calculation of interest in respect of Index Linked Interest Instruments: *(Where UK RPI is not the Index, and where necessary, specify Index Commencement Date, Indexation Advisor and Substitute Index Figure).*
- (xiv) Minimum Indexation Factor: [Not Applicable/*specify*]
- (xv) Maximum Indexation Factor: [Not Applicable/*specify*]

- (xvi) Limited Indexation Month(s): [Not Applicable/specify]
- (xvii) Base Index Figure: [•]
- (xviii) Reference Gilt: [•]
19. **Dual Currency Instrument Provisions** [•]  
 [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Determination Agent, if any, responsible for calculating the principal and/or interest due: [•]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [•]
20. **Other Rates (Instruments to which Condition 5C.05 applies)** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) All terms relating to the calculation of interest in respect of Instruments in relation to which Condition 5C.05 applies to be inserted: [•]

**PROVISIONS RELATING TO REDEMPTION**

21. **Call Option (Instruments to which Condition 6.06 applies)** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s): [•] per Instrument of [•] Specified Denomination  
 [Applicable/Not Applicable]  
*(If applicable, insert details)*
- (iii) If redeemable in part:

- (a) Minimum redemption amount: [•]
- (b) Maximum redemption amount: [•]
- (iv) Notice period: [•]
22. **Put Option** [Applicable/Not Applicable]  
**(Instruments to which Condition 6.09 applies)** *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [•] per Instrument of [•] Specified Denomination
- (iii) Notice period: [•]
23. **Final Redemption Amount of each Instrument** [[•] per Instrument of [•] Specified Denomination/other/see Appendix]
- (N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared.)*

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: *[give or annex details]*
- (ii) Determination Agent responsible for calculating the Final Redemption Amount: [•]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]

- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Payment date: [•]
- (vii) Minimum Final Redemption Amount: [•]
- (viii) Maximum Final Redemption Amount: [•]

24. **Early Redemption Amount**

- Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons or on default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [•]

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

25. Form of Instruments: **Bearer Instruments/Registered Instruments/Exchangeable Bearer Instruments:**
- [Temporary Global Instrument exchangeable for a]/[A] Permanent Global Instrument [which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]
- [Specify: (i) whether any Instruments in definitive form will have Coupons/Talons attached (Condition 1.05); and (ii) whether they will be security-printed.]*
26. Relevant Financial Centre(s) or other special provisions relating to Payment Dates [Not Applicable/give details. Note that this item relates to the date and place of payment, and not Interest Period end dates, to which items 15(iii), 16(iv) and 18(ix) relates]
27. Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature): [Yes/No. If yes, give details]

28. Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]: [Not Applicable/*give details*]
29. Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition •] apply]
31. New Global Instrument: [Yes/No]
32. Other final terms: [Not Applicable/*give details*]  
*(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

33. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names, addresses and underwriting commitments*]  
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
- (ii) Date of [Subscription] Agreement: [•]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
34. If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]
35. Total commission and concession: [•] per cent. of the Aggregate Principal Amount of the Instruments
36. Additional selling restrictions: [Not Applicable/*give details*]

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Instruments described herein pursuant to the US\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc and Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch ).]

**RESPONSIBILITY**

The Issuer [and the Guarantor(s)] accept[s] responsibility for the information contained in these Final Terms. [[•] has been extracted from [•].] [Each of the] [The] Issuer [and the Guarantor(s)] confirms that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, such information is in accordance with the facts and does not omit anything likely to affect its import.]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of HBOS plc, as Guarantor:

By: .....  
Duly authorised]

[Signed on behalf of Bank of Scotland plc, as Guarantor:

By: .....  
Duly authorised]

## PART B – OTHER INFORMATION

### 1 LISTING

- (i) Listing: [London/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on [•] with effect from [•].] [Not Applicable.](*Where documenting a fungible issue need to indicate that original securities are already admitted to trading.*)

### 2 RATINGS

- Ratings: The Instruments to be issued are expected to have the following ratings:
- [S&P: [•]]
- [Moody's: [•]]
- [[Other]: [•]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*  
*(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3 [NOTIFICATION

The UK Listing Authority [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer."

### 5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: [•]  
*(See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*  
[•]

[(ii)] Estimated net proceeds: [•]  
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)] Estimated total expenses: [•]  
[Include breakdown of expenses including legal fees, listing fees and underwriting commissions.]  
*(If the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

**6 [Fixed Rate Instruments only – YIELD]**

Indication of yield: [•]  
Calculated as [include details of method of calculation in summary form] on the Issue Date.  
  
As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**7 [Floating Rate Instruments only - HISTORIC INTEREST RATES]**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

**8 [Index Linked Interest Instruments or other variable-linked Instruments only - PERFORMANCE OF INDEX/FORMULA/other variable, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS and other information concerning the underlying]**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**9 [Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT]**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

**10 OPERATIONAL INFORMATION**

ISIN Code:	[•]
Common Code:	[•]
Any clearing system(s) (and the address of such clearing system(s)) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/ <i>give name(s), (address(es)) and number(s)</i> ]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[•]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No] [Note that the designation "yes" simply means that the Instruments are intended upon issue to be deposited with one of Euroclear or Clearstream Luxembourg as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][ <i>include this text if "yes" selected in which case the Instruments must be issued in New Global Instrument form</i> ]

**PRO FORMA FINAL TERMS FOR USE IN CONNECTION WITH ISSUES OF INSTRUMENTS TO BE  
ADMITTED TO TRADING WITH A DENOMINATION OF AT LEAST €50,000 ON AN EU REGULATED  
MARKET**

**Final Terms dated**

**[HBOS PLC]**

**[BANK OF SCOTLAND PLC (acting through its Treasury Division, London office and Australia branch)  
]**

Issue of [Aggregate Principal Amount of Tranche] [Title of Instruments]  
[Guaranteed by [Name of Guarantor(s)]]

**under the US\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc and Bank  
of Scotland plc (acting through its Treasury Division, London office and Australia branch)**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated 1 May 2007 (the "**Prospectus**") [and the supplemental Prospectus dated [•]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and in the case of each of them, at the specified office of the Principal Paying Agent.

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a [Prospectus] [Information Memorandum] with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the [Prospectus] [Information memorandum] dated [original date] [and the supplemental Prospectus dated [•]]. This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated 1 May 2007 [and the supplemental Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus] [Information Memorandum] dated [original date] [and the supplemental Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the [Prospectus] [Information Memorandum] dated [original date] [and the Prospectus dated 1 May 2007] [and the supplemental Prospectuses dated [•] and [•]]. The Prospectus [and the Information Memorandum] [and the supplemental Prospectuses] [is] [are] available for viewing in respect of HBOS plc and Bank of Scotland plc, at the offices of Shepherd and Wedderburn LLP, Level 2, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2ET, and, in the case of each of them, at the specified office of the Principal Paying Agent.

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

- |    |   |   |
|----|---|---|
| 1  | [(i)] Issuer:   | [•]   |
|    | [(ii)] Guarantor[s]:  | HBOS plc [and Bank of Scotland plc]   |
| 2  | [(i)] Series Number:  | [•]   |
|    | [(ii)] Tranche Number:  | [•]   |
|    | <i>(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible).]</i> |   |
| 3  | Specified Currency or Currencies:   | [•]   |
| 4  | Aggregate Principal Amount:   |   |
|    | [(i)] Series:   | [•]   |
|    | [(ii)] Tranche:   | [•]   |
| 5  | Issue Price:  | [•] per cent. of the Aggregate Principal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)]   |
| 6  | Specified Denominations:  | [•] <i>[(If the Instruments have a maturity of less than one year from the date of their issue and the Issuer is HBOS, the minimum denomination must be £100,000 or its equivalent in any other currency).]</i>   |
| 7  | [(i)] Issue Date:   | [•]   |
|    | [(ii)] Interest Commencement Date:  | [•]   |
| 8  | Maturity Date:  | <i>[specify date or (for floating rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]</i>   |
| 9  | Interest Basis:   | [Interest-Bearing/Non-interest-bearing.] <i>[(If interest-bearing, specify which of Conditions 5A (Fixed Rate), 5B (Floating Rate), or 5C (other rates) is applicable]</i><br>[•% Fixed Rate]<br>[[specify reference rate]+/-•% Floating Rate]<br>[Index Linked Interest]<br>[Other (specify)]<br>(further particulars specified below) |
| 10 | Redemption/Payment Basis:   | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency]<br>[Partly Paid]<br>[Instalment]/[other (specify)]  |

*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII of Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared.)*

- 11 Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Instruments into another interest or redemption/ payment basis]
- 12 Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
- 13 [(i)] Status of the Instruments: [Unsubordinated/[Undated]/Subordinated]  
[Specify which of Conditions 3A (unsubordinated Instruments), 3B.02 (subordinated Instruments other than Undated Instruments or 3C (subordinated Undated Instruments) applies. Where Condition 3C applies, specify if either Equity Accounting or Financial Liability Accounting applies].
- [(ii)] Status of the Guarantee: [Unsubordinated/[Undated]/Subordinated]  
[Specify which of Conditions 4A (unsubordinated guarantee), 4B (subordinated guarantee other than in respect of undated Instruments) or 4C (subordinated guarantee in respect of undated Instruments) applies.]
- [(iii)] [Date [Board] approval for issuance of Instruments [and Guarantee] obtained: [•] [and [•], respectively]  
*(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Instruments or related Guarantee)]*
- 14 Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 15 **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Period(s): [•]
- (iii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Relevant Financial Centre(s) for the definition of "Business Day"/not adjusted]
- (iv) Fixed Coupon Amount[s]: [•] per [•] in principal amount

- (v) Broken Amounts: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the fixed coupon amount(s)]*
- (vi) Day Count Fraction: *[30/360 / Actual/Actual (Bond) / Actual/365 / Actual/365 (Fixed) / Actual/360 / 30E/360 / Eurobond Basis / Actual/Actual ([ICMA]/ISDA) / RBA Bond Basis / other]*
- (vii) Determination Dates: *[•] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA]))*
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: *[Not Applicable/give details]*
- 16 **Floating Rate Instrument Provisions** *[Applicable/Not Applicable](If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): *[•]*
- (ii) Interest Payment Dates: *[•]*
- (iii) Business Day Convention: *[Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]*
- (iv) Relevant Financial Centre(s): *[•]*
- (v) Manner in which the Rate(s) of Interest is/are to be determined: *[Screen Rate Determination/ISDA Determination/other (give details)]*
- (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent): *[•]*
- (vii) Screen Rate Determination
- Reference Rate: *[•]*
  - Interest Determination Date(s): *[•]*
  - Relevant Screen Page: *[•]*
- (viii) ISDA Determination
- Floating Rate Option: *[•]*

	- Designated Maturity:	[•]
	- Reset Date:	[•]
(ix)	Margin(s):	[+/-][•] per cent. per annum
(x)	Minimum Rate of Interest:	[•] per cent. per annum
(xi)	Maximum Rate of Interest:	[•] per cent. per annum
(xii)	Day Count Fraction:	[•]
(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on floating rate Instruments, if different from those set out in the Conditions:	[•]
17	<b>Non Interest Bearing Instrument Provisions</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) [Amortisation/accrual yield:	[•] per cent. per annum
	(ii) Reference price:	[•]
	(iii) Any other formula/basis of determining amount payable:	[•]
18	<b>Index Linked Interest Instruments</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Index/Formula/other variable:	[UK RPI. Sub paragraph [(i)(a)/(i)(b)/(i)(c)] of the definition of "Index" as set out in Condition 5G.01 shall apply.]/[other - give or annex details]
	(ii) Determination Agent responsible for calculating the interest due:	[•]
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv) Interest Determination Date(s):	[•]
	(v) Provisions for determining Coupon where calculation	[•]

by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:

- |         |  |   |
|---------|--|---|
| (vi)    | Interest or Calculation Period(s):   | [•]   |
| (vii)   | Interest Payment Dates:  | [•]   |
| (viii)  | Business Day Convention:   | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other ( <i>give details</i> )]      |
| (ix)    | Relevant Financial Centre(s):  | [•]   |
| (x)     | Minimum Rate/amount of Interest:   | [•] per cent. per annum   |
| (xi)    | Maximum Rate/amount of Interest:   | [•] per cent. per annum   |
| (xii)   | Day Count Fraction:  | [•]   |
| (xiii)  | Other terms relating to the calculation of interest in respect of Index Linked Interest Instruments: | [•]<br><i>(Where UK RPI is not the Index, and where necessary, specify Index Commencement Date, Indexation Adviser and Substitute Index Figure)</i> |
| (xiv)   | Minimum Indexation Factor:   | [Not Applicable/ <i>specify</i> ]   |
| (xv)    | Maximum Indexation Factor:   | [Not Applicable/ <i>specify</i> ]   |
| (xvi)   | Limited Indexation Month(s):   | [Not Applicable/ <i>specify</i> ]   |
| (xvii)  | Base Index Figure:   | [•]   |
| (xviii) | Reference Gilt:  | [•]   |
| 19      | <b>Dual Currency Instruments Provisions</b>  | [•]<br>[Applicable/Not Applicable]<br><i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>                              |
| (i)     | Rate of Exchange/method of calculating Rate of Exchange:   | [give details]  |
| (ii)    | Determination Agent, if any, responsible for calculating the principal and/or interest due:          | [•]   |

- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [•]
- 20 **Other Rates (Instruments to which Condition 5C.05 applies)** [•]  
 [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) All terms relating to the calculation of interest in respect of Instruments in relation to which Condition 5C.05 applies to be inserted: [•]

**PROVISIONS RELATING TO REDEMPTION**

- 21 **Call Option (Instruments to which Condition 6.06 applies)** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount of each Instrument and method, if any, of calculation of such amount(s): [•] per Instrument of [•] Specified Denomination  
 [Applicable/Not Applicable]  
*(If applicable, insert details)*
  - (iii) If redeemable in part:
    - (a) Minimum redemption amount: [•]
    - (b) Maximum redemption amount: [•]
  - (iv) Notice period: [•]
- 22 **Put Option (Instruments to which Condition 6.09 applies)** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such [•] per Instrument of [•] Specified Denomination

amount(s):

- (ii) Notice period: [•]
- 23 **Final Redemption Amount of each Instrument** [[•] per Instrument of [•] Specified Denomination/see Appendix]

*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value, the Instruments will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII Commission Regulation (EC) No. 809/2004 will apply and a Drawdown Prospectus will be prepared.)*

In cases where the Final Redemption Amount is Index-Linked or other variable-linked:

- (i) Index/Formula/variable: [give or annex details]
- (ii) Determination Agent responsible for calculating the Final Redemption Amount: [•]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination date(s): [•]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Payment date: [•]
- (vii) Minimum Final Redemption Amount: [•]
- (viii) Maximum Final Redemption Amount: [•]

24 **Early Redemption Amount**

Early Redemption Amount(s) of each Instrument payable on redemption for taxation reasons or on default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

[•]

## GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25	Form of Instruments:	<p><b>Bearer Instruments/Registered Instruments/Exchangeable Bearer Instruments:</b></p> <p>[Temporary Global Instrument exchangeable for a]/[A] Permanent Global Instrument [which is exchangeable for Definitive Instruments in the limited circumstances specified in the Permanent Global Instrument]</p> <p><i>[Specify: (i) whether any Instruments in definitive form will have Coupons/Talon attached (Condition 1.05); and (ii) whether they will be security-printed.]</i></p>
26	Relevant Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details. Note that this item relates to the date and place of payment, and not Interest Period end dates, to which items 15 (iii), 16(iv) and 18(ix) relates]
27	Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature):	[Yes/No. If yes, give details]
28	Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]:	[Not Applicable/give details]
29	Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made:	[Not Applicable/give details]
30	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition •] apply]
31	New Global Instrument:	[Yes/No]

32 Other final terms: [Not Applicable/give details](When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

**DISTRIBUTION**

32 (i) If syndicated, names of Managers: [Not Applicable/give names]  
(ii) Stabilising Manager(s) (if any): [Not Applicable/give name]  
33 If non-syndicated, name of Dealer: [Not Applicable/give name]  
34 Additional selling restrictions: [Not Applicable/give details]

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Instruments described herein pursuant to the US\$120,000,000,000 Programme for the Issuance of Debt Instruments of HBOS plc and Bank of Scotland plc (acting through its Treasury Division, London office and Australia branch).]

**RESPONSIBILITY**

The Issuer [and the Guarantor(s)] accept[s] responsibility for the information contained in these Final Terms.[[\*] has been extracted from [\*].] [Each of the] [The] Issuer [and the Guarantor(s)] confirms that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, such information is in accordance with the facts and does not omit anything likely to affect its import.]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

[Signed on behalf of HBOS plc, as Guarantor:

By: .....  
Duly authorised]

[Signed on behalf of Bank of Scotland plc, as Guarantor:

By: .....  
Duly authorised]

## **PART B – OTHER INFORMATION**

### **1 LISTING**

- (i) Listing: [London/ other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on [•] with effect from [•].]  
[Not Applicable.]
- (iii) Estimate of total expenses relating to admission to trading: [•]

### **2 RATINGS**

Ratings: The Instruments to be issued are expected to have the following ratings:

[S & P: [•]]  
[Moody's: [•]]  
[[Other]: [•]]

*(The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### **3 [NOTIFICATION]**

The UK Listing Authority [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

### **4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer."

### **5 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]**

- [(i) Reasons for the offer: [•]  
*(See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*
- [(ii) Estimated net proceeds: [•]  
*(If proceeds are intended for more than one use will need to split out and present in order of*

*priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*

[(iii)] Estimated total expenses: [•] *[Include breakdown of expenses including legal fees, listing fees and underwriting commissions.]*

*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

**6 [Fixed Rate Instruments only – YIELD**

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**7 [Index Linked Interest Instrument or other variable-linked Instruments only – PERFORMANCE OF INDEX/FORMULA/other variable, and other information concerning the underlying**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

**8 [Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

**9 OPERATIONAL INFORMATION**

ISIN Code: [•]

Common Code: [•]

Any clearing system(s) (and the address of such clearing system(s)) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) (address(es)) and number(s)]

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [•]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

[Note that the designation "yes" simply means that the Instruments are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not

necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. *[[include this text if "yes" selected in which case the Instruments must be issued in New Global Instrument form]*