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November 10, 2021

Re: Fixed-Spread Pricing Methodology in an Exchange Offer by Lloyds Banking Group plc – Rule 14e-1(b)

Via E-mail

Office of Mergers and Acquisitions
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Attention: Ted Yu, Chief
Daniel F. Duchovny, Special Counsel

Dear Messrs. Yu and Duchovny:

We are writing on behalf of Lloyds Banking Group plc, a Scottish public limited company (the “**Company**”), in connection with a proposed exchange offer (the “**Exchange Offer**”) by the Company. In the Exchange Offer, the Company would offer consideration which may consist of new subordinated debt securities to be issued by the Company (“**New Notes**”) or a combination of New Notes and cash (as discussed in more detail below) in exchange for (1) up to all of (i) two series of outstanding American Depositary Shares representing the Company’s redeemable preference shares (“**ADSs**”) and (ii) one series of outstanding debt securities issued by HBOS plc, a wholly owned subsidiary of the Company (“**HBOS Existing Notes**”), and (2) a portion of two series of outstanding debt securities issued by the Company (“**LBG Existing Notes**” and, together with the ADSs and HBOS Existing Notes, the “**Existing Securities**”).

The purpose of our letter is to request that the Staff (the “**Staff**”) of the Securities and Exchange Commission (the “**Commission**”) confirm that it will not recommend that the Commission take enforcement action against the Company pursuant to Rule 14e-1(b) under the Exchange Act if the Exchange Offer is conducted using a fixed-spread pricing methodology in the manner described below.

Background

The Issuer

The Company is a “foreign private issuer” within the meaning of Rule 3b-4(c) under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). The Company has a class of equity securities registered pursuant to Section 12(b) of the Exchange Act and is required to file periodic reports pursuant to Sections 13(a) and 15(d) of the Exchange Act.

The ADSs and Preference Shares

The Company has outstanding two series of U.S. dollar-denominated Preference Shares: 6.413% Non-Cumulative Fixed to Floating Rate Preference Shares (the “**2035 Preference Shares**”) and 6.657% Non-Cumulative Fixed to Floating Rate Preference Shares (the “**2037 Preference Shares**” and, together with

the 2035 Preference Shares, the "**Preference Shares**"). All of the outstanding Preference Shares of each series are currently held by a custodian for the depositary, The Bank of New York Mellon, and represented by American Depositary Shares ("**ADSs**"). Each ADS represents the right to receive 100 Preference Shares of the relevant series. The ADSs were initially issued by Lloyds TSB Group plc in 2008 in connection with its acquisition of HBOS plc ("**HBOS**") in a scheme of arrangement effected in reliance on Section 3(a)(10) of the Securities Act. As part of that transaction, the ADSs were issued in exchange for then-outstanding American Depositary Shares of HBOS, which were issued in 2005 and 2007, respectively, at an offering price of $100,000 per ADS, to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. The Preference Shares are currently rated investment grade by Moody's Investors Service (Baa3) and Fitch Ratings (BBB-), and BB by Standard & Poor's Ratings Services. None of the Preference Shares or ADSs is listed or traded on any U.S. stock exchange or automated quotation system or registered under the U.S. securities laws. The ADS are traded in the over-the-counter market.

The Preference Shares accrue non-cumulative preferential cash dividends at an annual fixed rate of 6.413% (in the case of the 2035 Preference Shares) and 6.657% (in the case of the 2037 Preference Shares) of the relevant liquidation preference, payable at the discretion of the Board of Directors of the Company or a duly authorized committee of the Board of Directors of the Company, with payments made semi-annually in arrears.

The Preference Shares of each series have a liquidation preference of $1,000 per share. On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital permitted by its articles of association and under applicable law), holders of Preference Shares of each series will rank in the application of the assets of the Company available to shareholders in priority to the holders of any other share capital of the Company.

The Preference Shares are perpetual securities and have no maturity date. However, the Preference Shares are redeemable, at the option of the Company, subject to confirmation from the relevant regulator that it has no objection to the redemption, on October 1, 2035 (in the case of the 2035 Preference Shares) and May 21, 2037 (in the case of the 2037 Preference Shares) (each such date, the "**first call date**"), and on any dividend payment date thereafter, at the redemption price per Preference Share equal to the liquidation preference of $1,000 per Preference Share to be redeemed together with any dividends accrued but unpaid since the immediately preceding dividend payment date. We have been advised that, like subordinated debt securities that qualify as Tier 2 capital and other bank capital securities, the Preference Shares of each series trade on a "yield to call" basis, meaning that investors price the securities on the basis of a yield to the first call date under their terms (reflecting an assumption that the securities will be called).

Holders of Preference Shares have no voting rights, except in limited circumstances such as in respect of any proposal to vary or abrogate any of the rights and restrictions attached to the Preference Shares.

We are advised that the largest publicly known holders of the ADSs include institutional fixed-income investors that typically invest in fixed-income instruments, including a number of U.S. general insurance accounts.

The Company accounts for the Preference Shares under International Financial Reporting Standards as liabilities at amortized cost rather than as equity.

The HBOS Existing Notes and LBG Existing Notes

The HBOS Existing Notes and the LBG Existing Notes are non-convertible debt securities and are currently rated investment grade by Standard & Poor's Ratings Services (BBB-) and Fitch Ratings (BBB+).

The Proposed Exchange Offer

The Exchange Offer will consist of an offer to exchange the Exchange Consideration (as defined below) for (i) any and all of the outstanding ADSs and HBOS Existing Notes, and (ii) up to a portion of the LBG Existing Notes.

The Company will register the offering of the New Notes in connection with the Exchange Offer and will file with the Commission a tender offer statement on Schedule TO. The documents will describe the terms and conditions of the Exchange Offer, including the pricing methodology.

In respect of the ADSs and the HBOS Existing Notes, the Exchange Offer will be made on an "any and all" basis, allowing holders to fully dispose of their holdings of ADSs and/or HBOS Existing Notes, without the risk of proration.

Major investment banks will act as dealer managers (the "**Dealer Managers**") in connection with the Exchange Offer.

The Exchange Offer will remain open for 20 full business days, subject to extension. Tendering holders of Existing Securities will have withdrawal rights until the expiration of the Exchange Offer and, subject to satisfaction of the conditions of the Exchange Offer, holders of Existing Securities validly tendered and not withdrawn at or prior to the expiration date will receive the Exchange Consideration promptly after such expiration date.

In respect of all the series of Existing Securities, the Exchange Offer is a purely voluntary offer and investors may choose to participate in it and exchange their Existing Securities for the Exchange Consideration, or may alternatively elect to not participate and continue to hold such Existing Securities in accordance with their terms. The Exchange Offer will provide holders of Existing Securities an opportunity to exchange their securities for the Exchange Consideration, at a premium to trading prices observable immediately prior to commencement of the Exchange Offer. Since it is intended that the aggregate principal amount of the New Notes issued in the Exchange Offer will be larger than the aggregate outstanding principal amount of the Existing Securities, the New Notes are expected to offer participating holders increased liquidity. In addition, because the ADSs and HBOS Existing Notes were issued before the adoption of post-financial crisis reforms to European and UK bank capital requirements, the Exchange Offer will provide an opportunity to the holders to exchange such securities for new securities the terms of which are more closely aligned with recent issuances of USD-denominated subordinated debt securities by European financial institutions (including the Company).

The Company intends to cancel the Existing Securities acquired in the Exchange Offer as soon as practicable following the consummation of the Exchange Offer.

Determination of the Exchange Offer Consideration

The Company proposes to use fixed-spread pricing methodology in connection with the Exchange Offer to determine (1) an exchange offer consideration in respect of each $1,000 principal amount of the Existing

Securities validly tendered and not withdrawn (the "**Exchange Consideration**") and (2) the interest rate of the New Notes (the "**New Notes Interest Rate**"). The Exchange Consideration will consist of either New Notes or a combination of New Notes and cash.[1]

In respect of each of the Exchange Consideration and the New Notes Interest Rate, the relevant formula will be based on a stated fixed spread over the yield on a specified benchmark U.S. Treasury security as of 2:00 p.m., New York time, on the second business day immediately preceding the expiration date of the Exchange Offer (the **"Pricing Date**"), that is, the 18th business day of the offer period.[2]

As discussed in further detail below, the Exchange Consideration and the New Notes Interest Rate will be set on the Pricing Date because of the high likelihood that an exchange consideration and an interest rate set earlier could be significantly above or below market as of the expiration date of the Exchange Offer.

The stated fixed spread and the benchmark U.S. Treasury security in relation to each series of Existing Securities and the New Notes will be disclosed in the preliminary prospectus, which will be distributed to all holders of the Existing Securities at the commencement of the Exchange Offer and which will form part of the registration statement on Form F-4 filed with the Commission. The formula to be used to determine the Exchange Consideration per Existing Security of each series and the New Notes Interest Rate will also be disclosed in the preliminary prospectus. The preliminary prospectus will also include (1) hypothetical Exchange Consideration for each series and New Notes Interest Rate, in each case based on the applicable reference yield as of the day immediately preceding the commencement of the Exchange Offer, and (2) annexes with detailed schedules (i) setting forth the formula for determining each of the Exchange Consideration per Existing Security of each series and the New Notes Interest Rate, and (ii) illustrating how the hypothetical Exchange Consideration for each series and New Notes Interest Rate have been calculated. The preliminary prospectus will identify the electronic quotation service to be used as the definitive reference source for yield data regarding each benchmark U.S. Treasury security in calculating the Exchange Consideration and New Notes Interest Rate and where yield data regarding such U.S. Treasury security will be available during the Exchange Offer. The actual Exchange Consideration for Existing Securities of each series and the New Notes Interest Rate will be disclosed in a press release to be issued prior to the close of business on the Pricing Date. Throughout the Exchange Offer, representatives of the Dealer Managers will be available through a toll-free telephone number to provide a hypothetical Exchange Consideration and/or New Notes Interest Rate as of the date of a holder's inquiry as well as to answer questions holders of the Existing Securities may have regarding the Exchange Offer. The toll-free telephone number will be disclosed in the preliminary prospectus and any press releases regarding the Exchange Offer.

Discussion

The Division of Corporation Finance and the Division of Market Regulation have previously adopted no-action positions with respect to cash tender offers conducted by issuers for preference shares and non-

[1] Any such cash element of the Exchange Consideration will be announced the commencement of the Exchange Offer and will remain fixed throughout the duration of the Exchange Offer. For the avoidance of doubt, the inclusion of any such cash consideration would affect the composition, but not the amount, of the Exchange Consideration.

[2] Because each of the Exchange Consideration and the New Notes Interest Rate will be based on an objective formula, holders will have sufficient information to make their decision whether to tender their Existing Securities from commencement of the Exchange Offer, rather than the Pricing Date. However, if they want to withdraw their securities following the Pricing Date, they will have at least two full business days following the Pricing Date to do so, because the offer is scheduled to expire at 11:59 p.m., New York time, on the 20th business day.

convertible, investment-grade debt securities using a fixed-spread pricing methodology.[3] We believe that the Exchange Offer is consistent, in all relevant substantive respects, with the principles reflected in such letters and does not present considerations that differ significantly from the transactions described in those letters. In addition, we believe that the proposed fixed-spread pricing methodology is consistent with the principles established in prior no-action letters relating to formula pricing in exchange offers and issuer tender offers for equity securities.[4]

Similarly to the transactions covered by prior no-action letters relating to the use of fixed spread pricing methodology, the preliminary prospectus relating to the Exchange Offer will (i) identify the specific benchmark U.S. Treasury securities to be used in calculating the Exchange Consideration and New Notes Interest Rate and specify the fixed spread to be added to the yield on each such benchmark U.S. Treasury security, (ii) describe the methodology to be used to calculate the Exchange Consideration and New Notes Interest Rate, (iii) identify the electronic quotation service to be used as the definitive reference source for yield data regarding the benchmark U.S. Treasury securities in calculating the Exchange Consideration and New Notes Interest Rate and (iv) state the hypothetical Exchange Consideration and New Notes Interest Rate[5] calculated as of the day immediately preceding commencement of the Exchange Offer.[6] In addition, the Exchange Offer will not be made in anticipation of or in response to other tender offers for any other of the Company's securities and will provide that all tendering holders of the Existing Securities will receive the New Notes promptly after their tendered securities are accepted for exchange, as required by Rule 14e-1(c).

In addition, the Exchange Offer is similar to the equity exchange offers and tender offers covered by the no-action letters relating to the use of formula pricing in that (i) the formula for determining each of the Exchange Consideration and New Notes Interest Rate will be disclosed in the Exchange Offer materials disseminated to holders of the Existing Securities, (ii) each formula will remain fixed throughout the duration of the Exchange Offer (except if there is a change in the formula, in which case the offer period would be extended unless at least ten business days remained between the date of announcement of such change and the then-scheduled expiration date of the Exchange Offer), (iii) a toll-free telephone number will be provided that will enable holders of the Existing Securities to obtain answers to questions they may have regarding the Exchange Offer as well as a hypothetical Exchange Consideration and/or New Notes Interest Rate as of the date of such holder's inquiry, (iv) each of the Exchange Consideration and New Notes Interest Rate will be set as of 2:00 p.m., New York time, on the second business day immediately preceding the scheduled expiration of the Exchange Offer and (v) a press release will be issued to publicly announce the Exchange Consideration and New Notes Interest Rate prior to the close of business (New York time) on the Pricing Date.

[3] *See* BBVA Privanza International (Gibraltar) Limited, No-action letter (December 23, 2005) (the "**BBVA Letter**"); Salomon Brothers Inc., No-action letter (October 1, 1990); Embassy Suites, Inc., No-action letter (April 15, 1992); Merrill Lynch, Pierce, Fenner & Smith Incorporated, No-action letter (July 19, 1993); Goldman, Sachs & Co., No-action letter (December 3, 1993); The Times Mirror Company, No-action letter (November 15, 1994).

[4] *See* Lazard Freres & Co., No-action letter (August 11, 1995); AB Volvo, No-action letter (May 16, 1997); Epicor Software Corporation, No-action letter (May 13, 2004); TXU Corporation, No-action letter (September 13, 2004).

[5] As discussed above, the preliminary prospectus will include as annexes a detailed schedule setting forth the formula for determining the Exchange Consideration and New Notes Interest Rate, as well as a schedule illustrating how the hypothetical Exchange Consideration and New Notes Interest Rate have been calculated.

[6] The prior no-action letters relating to fixed-spread pricing have generally been granted in respect of tender offers for any and all securities that were open to all holders of record of the target securities. In the Exchange Offer, the Company will be making offers to exchange New Notes for any and all of the outstanding ADSs and HBOS Existing Notes, and a portion of the outstanding LBG Existing Notes. The offers in respect of the ADSs will be open to all holders of record thereof. The Exchange Offer will be subject to certain customary jurisdictional restrictions and a requirement to submit tenders of Existing Securities in principal amounts that would result in the Company issuing New Notes in exchange for such notes in an amount at least equal to the minimum denomination of the New Notes (being $200,000).

Similarly to the preference shares described in the BBVA Letter, while the Preference Shares do not constitute non-convertible, investment-grade debt, they have many of the attributes of such debt. For example, the Preference Shares accrue non-cumulative dividends at an annual fixed rate based on the liquidation preference thereof and have a liquidation preference per share to the extent discussed above. Moreover, the Preference Shares are rated investment grade by Moody's Investor Service and Fitch Ratings. The Dealer Managers have advised that the Preference Shares, like fixed-income securities, are valued by investors on the basis of their yield, taking into account the Company's credit spread, compared to a benchmark yield.[7] The Preference Shares were also originally marketed to investors on the basis of a spread compared to a benchmark U.S. Treasury security yield.

Similarly, we are advised that the New Notes, as debt securities, will be valued by investors on the basis of their yield, taking into account the Company's credit spread, compared to a benchmark yield, which is consistent with how other securities similar to the New Notes are marketed to and valued by, investors.

We believe that the only significant feature of the proposed fixed-spread pricing methodology which distinguishes it from those previously permitted by the Staff is the use of two formulas concurrently – one to determine the price of the target securities and another one to determine the interest rate of the new securities. We believe, however, that this feature of the Exchange Offer is consistent with the position expressed in prior no-action letters with respect to formula pricing and should not be regarded as producing a change in the consideration offered during the term of the Exchange Offer within the meaning of Rule 14e-1(b).

As in the case of the fixed-spread pricing methodology described in the BBVA Letter, each of the Exchange Consideration and New Notes Interest Rate in the Exchange Offer will be calculated by reference to a yield on a specified benchmark U.S. Treasury security as of 2:00 p.m., New York time, on a specified business day preceding the expiration of the Exchange Offer. Accordingly, while a tendering holder will not know the Exchange Consideration or the New Notes Interest Rate on the date of its tender (unless such holder tenders after 2:00 p.m., New York time, on the Pricing Date (i.e., the second business day immediately preceding the expiration of the Exchange Offer)), such holder will know the pricing determinants, which are set at the commencement of the Exchange Offer and disclosed in the preliminary prospectus. Therefore, the holder can at any point from the commencement of the Exchange Offer calculate a hypothetical Exchange Consideration and New Notes Interest Rate. This information will also be posted daily on the exchange agent's website. The yield on each relevant benchmark U.S. Treasury security and the resulting Exchange Consideration for the relevant series of the Existing Securities and the New Notes Interest Rate, as applicable, will be accessible as soon as practicable after 2:00 p.m., New York time, on the Pricing Date by means of a toll-free telephone number established for the Exchange Offer, and will be disclosed in a press release to be issued prior to the close of business (New York time) on the Pricing Date, available on the Company's website. The Exchange Offer would be extended if a change is made to the relevant fixed spread or the method of calculating either the Exchange Consideration or the New Notes Interest Rate during the Exchange Offer unless at least ten business days remained between the date of announcement of such change and the then-scheduled expiration date of the Exchange Offer. Such change would be disclosed to holders in an amended registration statement and Rule 424 filing as well as an amendment to

[7] Here, we understand that the most appropriate benchmark yield for the relevant series of Existing Securities would be either (i) the "on the run" U.S. Treasury security (determined in accordance with customary market practice) applicable to the trading of fixed-income securities with a remaining duration corresponding to the first call date (in the case of the ADSs) or the maturity date (in the case of the HBOS Existing Notes and LBG Existing Notes) or (ii) the current yield on a U.S. Treasury security with a maturity date closest to the first call date (in the case of the ADSs) or the maturity date (in the case of the HBOS Existing Notes and LBG Existing Notes).

the Schedule TO. Holders will retain the right to withdraw tendered securities until the expiration of the Exchange Offer.

As in the case of offers for preference shares and debt securities, the use of the proposed fixed-spread pricing methodology also has distinct advantages, both for the Company and holders of the Existing Securities, over an exchange offer using fixed nominal consideration in respect of the target securities or a fixed coupon in respect of the new notes issued in exchange for the target securities. In particular, the use of fixed-spread pricing reduces the interest rate risk to which an exchange offer using fixed nominal consideration or a fixed coupon tender offer subjects the issuer and holders. Specifically, in connection with an exchange offer using fixed price nominal consideration or a fixed coupon, interest rates (and therefore market yields) may vary during the offer period, particularly in the case of an offer that remains open for a period of 20 full business days and during periods of increased volatility.

In respect of the Exchange Consideration:

- If interest rates increase during the offer period, if a fixed nominal consideration were to be used, the issuer will end up overpaying for securities whose dollar value has declined.

- By contrast, if interest rates decrease during the offer period, if a fixed nominal consideration were to be used, the success of the offer may be jeopardized as holders refuse to tender securities whose dollar value has increased.

In respect of the New Notes Interest Rate:

- If interest rates increase during the offer period, if a fixed coupon approach is used, the success of the offer may be jeopardized as holders refuse to tender securities since the value of the New Notes received as consideration will have decreased.

- By contrast, if interest rates decrease during the offer period, if a fixed coupon approach is used, the issuer will end up overpaying since the New Notes will be worth more to investors (since investors value the New Notes as a credit spread, compared to a benchmark yield).

The proposed fixed-spread pricing methodology for the Exchange Offer would eliminate 18 days of market risk relating to fluctuations in the U.S. Treasury securities market, thereby both reducing, for all parties involved, the risks resulting from fluctuations in interest rates during the offer period and shielding the value proposition of the Exchange Offer for holders.[8] At the same time, holders will be able to monitor the market and base their decision to tender on the relevant fixed spreads used in the Exchange Offer, without worrying about fluctuations in the U.S. Treasury securities market. Furthermore, because each of the Exchange Consideration and the New Notes Interest Rate will be based on an objective formula, holders will have sufficient information from commencement of the Exchange Offer, rather than from the Pricing Date.

Conclusion

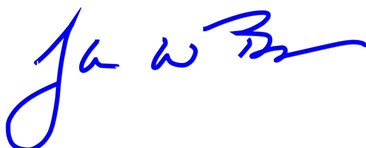
In our view, the use of the proposed fixed-spread pricing methodology in the manner described herein is desirable from both the perspective of the Company and the holders of the Existing Securities. The proposed fixed-spread pricing methodology would allow holders of the Existing Securities to evaluate the

[8] Interest rate risk would be limited to the remaining two-day period of the Exchange Offer.

terms and relative value of both the Exchange Consideration and the New Notes in the Exchange Offer in a manner consistent with standard market practice for buying and selling such securities. In light of the above, we believe that the position expressed in the prior no-action letters with respect to fixed-spread pricing in respect of tender offers for preference shares and non-convertible, investment-grade debt securities, as well as the position expressed in prior no-action letters with respect to formula pricing in respect of exchange offers and tender offers for equity securities, should also apply in the context of the Exchange Offer. Accordingly, we request that the Division of Corporation Finance advise us that it will not recommend that the Commission take any enforcement action pursuant to Rule 14e-1(b) under the Exchange Act if the Exchange Offer is conducted in the manner described herein.

If you have any questions with respect to the foregoing or require any further information with respect to this request, please do not hesitate to call the undersigned at (212) 450-4116 or Radoslaw Michalak at (212) 450-6438. Alternatively, you may call (212) 450-4000 and ask to be connected.

Very truly yours,



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