Subject: Put your Lloyds 8% fixed- to-float CoCo up for tender? [C]
From: Tazia Smith <[redacted]>
Date: Mon, 31 Mar 2014 14:34:52 -0400
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Classification: Confidential

Jeffrey -

Consider putting your Lloyd's CoCo up for tender. Vanshree (Vinit's team in London) reviewed with us together:

Your LLoyds 8% fixed-to-float CoCo (trading ~107.50, cusip G5433BBG8, 144A CoCo) is up for voluntary tender. Lloyds is offering to exchange up to $5bn of outstanding CoCos that do not currently count as going-concern capital for new-issued CoCos that will count as capital, likely be more liquid, and not be subject to a perpetual regulatory call (detail below). There are ~$8.4bn outstanding CoCos that qualify for ender. Lloyd's is going to swap $5bn of outstanding for new CoCos. Your issue is low on the waterfall of that $8.4bn that could be swapped; may not be exchanged at all or could be pro-rated. New bond will have a 7.5% coupon that floats at 5yr MS +476bps in 2024 (callable in 2024). Details below, source: Pershing LLC as of 3/31/14.

Your cost basis is 108.25 (down $22,500k MTM on 3mm face, does not include coupons collected)

Exchange ratio will be at 105.75 + accrued ($24k per 1mm as of today), ~6.8% yield vs ~6.5% current. Benefits include no perpetual regulatory call, and liquidity.

Speak with you soon,
Tazia

Lloyd's G5433BBG8 - 1yr price history

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| | |
|---|---|
| Description | LBG CAPITAL NO 1 |
| Symbol | LYG.HT |
| CUSIP | G5433BBG8 |
| Offer | EXCHANGE |
| Offer Description | EXCHANGE OFFER |
| Subject To IRC 302 Withholding | NO |
| Other Offers Available | |

Offer Dates

| | | | |
|---|---|---|---|
| Cut-Off Date | 03/31/2014 | Cut-Off Time | 19.00.00 |
| Withdrawal Date | | Withdrawal Time | 00.00.00 |
| Expiration Date | 04/02/2014 | Expiration Time | 10.00.00 |
| Protected Date | | | |

Offer Details

| | |
|---|---|
| Odd Lot | Over Subscribe |
| Minimum Bid | Maximum Bid |
| Increments | Multiplier Factor |

++ UPDATE 03/28/14 : AGENT HAS ADVISED THAT PARTICIPATING BENEFICIAL OWNER NAME WILL NEED TO BE DISCLOSED. PERSHING WILL DISCLOSE AS REQUIRED.+++++++
UPDATE: THE AGENT HAS ADVISED HOLDERS MAY EXCHANGE THEIR NOTES IN A MINIMUM DENOMINATION OF USD1,000 AND MULTIPLES THEREOF.
+UPDATE 03/13/14: THE CONVERSION PRICE OF THE NEW NOTES IS USD1.072 NOT USD1,072 AS PREVIOUSLY ANNOUNCED. +
NO MAILING WILL BE MADE TO HOLDERS. IF YOU ARE ELIGIBLE AND WISH TO REQUEST A COPY OF THE MATERIAL PLEASE SEND A SERVICE CENTER TO CORPORATE ACTIONS, VOLUNTARY, OFFER - EXPIRING.
FOREIGN RESTRICTIONS: RESTRICTIONS APPLY TO BENEFICIAL HOLDERS IN THE SWITZERLAND, UNITED KINGDOM, ISLE OF MAN, JERSEY, GUERNSEY, BELGIUM, FRANCE AND ITALY.
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GENERAL OFFER TERMS: IN 2009, LBG UNDERTOOK A SIGNIFICANT CAPITAL RAISING EXERCISE IN ORDER TO REINFORCE THE GROUP'S GOING-CONCERN CAPITAL RATIOS, AND TO MEET THE FINANCIAL SERVICE AUTHORITY'S STRESS REQUIREMENTS. AS A COMPONENT OF THE EXERCISE, THE GROUP ISSUED 33 SERIES OF ENHANCED CAPITAL NOTES (ECNS), WITH A NOMINAL OF USD8.4BN (BRITISH POUNDS) CURRENTLY OUTSTANDING.

THE EXISTING NOTES CONDITIONS OF THE ECNS INCLUDE A REGULATORY CALL RIGHT SHOULD, AMONGST OTHER THINGS, THE ECNS CEASE TO BE TAKEN INTO ACCOUNT FOR THE PURPOSES OF ANY STRESS TEST APPLIED BY THE PRA IN RESPECT OF CORE CAPITAL. WHILST STILL UNCERTAIN, MANAGEMENT OF LBG BELIEVE RECENT DEVELOPMENTS RESULTING IN HIGHER CAPITAL REQUIREMENTS FOR BANKS MAKE IT LIKELY THAT THE ECNS WILL NOT PROVIDE GOING CONCERN BENEFIT UNDER FUTURE STRESS TESTS. AS A RESULT THE GROUP'S CET1 RATIO IS SUBSTANTIALLY LOWER THAN THE CORE TIER ONE RATIO ON WHICH THE CONVERSION TRIGGER OF THE ECNS IS BASED. LBG IS LAUNCHING A PRIORITIZED EXCHANGE OFFER TO ELIGIBLE HOLDERS OF ECNS TO EXCHANGE THEIR ECNS FOR NEW ADDITIONAL TIER ONE SECURITIES AT A PRICE CONSISTENT WITH CURRENT TRADING PRICES. THE OFFER PROVIDES ELIGIBLE HOLDERS TO ELIMINATE THE UNCERTAINTY AROUND THE REGULATORY CALL RIGHT IN THE ECNS. IN ADDITION, SUCH EXCHANGE OFFERS ARE EXPECTED TO RESULT IN SUFFICIENT ADDITIONAL TIER ONE SECURITIES BEING ISSUED TO MEET THE GROUP'S MEDIUM-TERM ADDITIONAL TIER ONE TARGET.

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EXCHANGE RATIO FOR THE ABOVE NOTES: USD1,057.50 PRINCIPAL AMOUNT OF NEW NOTES PER USD1,000 PRINCIPAL AMOUNT OF OLD NOTES, PLUS ACCRUED AND UNPAID INTEREST, UP TO, BUT NOT INCLUDING, THE SETTLEMENT DATE, SUBJECT TO PRORATION.

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EXPECTED PROCEED SECURITY DETAILS:

ISIN: US539439AG42

FIRST CALL DATE/OPTIONAL REDEMPTION DATE: 06/27/2024

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INITIAL COUPON: 7.50 PERCENT ANNUM

RESET COUPON: 5-YEAR MS+4.76 PERCENT

CONVERSION PRICE: USD1.072

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THE EXCHANGE OFFER IS CONDITIONED UPON RECEIVE VALID OFFERS TO EXCHANGE THAT, IF AND WHEN ACCEPTED, WOULD RESULT IN LBG ISSUING ADDITIONAL TIER ONE SECURITIES OF THE RELEVANT SERIES IN SATISFACTION OF THE MINIMUM NEW ISSUE SIZE CONDITION. THE MINIMUM NEW ISSUE SIZE FOR THE ABOVE NOTES IS USD750,000,000.

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EXCHANGE CAP: THE EXCHANGE OFFER IS CONDITIONED UPON THE MAXIMUM NEW ISSUE SIZE. THE MAXIMUM NEW ISSUE SIZE FOR THE ABOVE NOTES IS USD1,675,000,000.

THE EXCHANGE PRIORITY AND THE MAXIMUM NEW ISSUE SIZE APPLICABLE TO EACH EXCHANGE OFFER ARE INDEPENDENT FROM THOSE SET FOR THE OTHER EXCHANGE

MATERIAL FOR FULL PRORATION DETAILS.

++++++++THE ABOVE NOTES HAVE A PRIORITY LEVEL OF THREE.+++++++++++

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CASH IN LIEU OF FRACTIONAL NEW NOTES WILL BE PAID (THOSE NOT MULTIPLES OF USD1,000 PRINCIPAL AMOUNT).

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//IF YOU ARE ELIGIBLE AND WISH TO EXCHANGE OLD NOTES FOR THE NEW NOTES VIA IFA, SELECT 'POSITIONS' THEN 'OPTION 1' UNDER THE EXCHANGE OFFER.

TO EXCHANGE VIA THE REOR SYSTEM USE OFFER CODE 'EXC'.

PLEASE NOTE THAT IN GENERAL TERMS, THE PAY DATE FOR VOLUNTARY CORPORATE ACTIONS IS APPROXIMATELY 7-10 BUSINESS DAYS AFTER THE OFFER EXPIRES. CV

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