



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

September 1, 2016

Kevin P. McKendry, Esq.
Senior Partner, North America
Lloyds Bank
1095 Avenue of the Americas
New York, New York 10036-6797

Dear Mr. McKendry:

This is in response to your letter dated May 31, 2016, on behalf of Lloyds Banking Group plc (“LBG”), London, United Kingdom, requesting an extension of time to hold its investment in Test Equipment Asset Management Limited (“Investment”), Harrow, United Kingdom. LBG, a foreign banking organization that has made an effective election to be treated as a financial holding company (“FHC”), currently holds the Investment as a merchant banking investment under section 4(k)(4)(H) of the Bank Holding Company Act of 1956, as amended (“BHC Act”), and subpart J of the Board’s Regulation Y.¹ The holding period applicable for the Investment expired on June 23, 2016, and LBG seeks additional time to conform or divest its interest in the Investment.

Under the merchant banking rules, an FHC is generally permitted to make, as part of a bona fide underwriting, investment, or merchant banking activity, an investment in a nonbanking company or other entity that is engaged in an activity not otherwise authorized for an FHC under section 4 of the BHC Act. In general, an FHC may hold a merchant banking investment (other than one held in or through a qualifying private equity fund) for no longer than 10 years and is

¹ See 12 U.S.C. § 1843(k)(4)(H) and 12 CFR 225.170 et seq.

prohibited from routinely managing or operating the relevant portfolio company.² The rules also permit an FHC to request an extension of the holding period.³

LBG has submitted to the Board the information required by 12 CFR 225.172(b)(4). All the information provided has been considered, including LBG's average holding period for its merchant banking investments and its continued efforts to conform or divest its interest in the Investment. The record in this case shows that LBG has made good faith efforts to divest the Investment before the expiration of the holding period. LBG has also represented that it has held the Investment in conformity with the requirements of the merchant banking rules, including the restrictions on routine management and operation.

Based on the foregoing and all the facts of record, the Director of the Division of Banking Supervision and Regulation, acting under authority delegated by the Board and in consultation with the General Counsel, has granted LBG an extension until June 23, 2017, to hold the Investment under, and in accordance with, the merchant banking provisions of the BHC Act and the Board's Regulation Y. LBG must calculate its regulatory capital requirements under Regulation Q⁴ and also must make any adjustments required by 12 CFR 225.172(b)(6).

LBG has committed that it will file with appropriate applications staff at the Federal Reserve Bank of New York ("Reserve Bank"), commencing 30 days from the date of this letter, quarterly progress reports detailing the actions it is taking to divest or conform the Investment under the BHC Act. In addition, LBG has committed to submit a final report to the Reserve Bank no later than June 23, 2017, describing how the Investment was divested or conformed under the BHC Act.

This action is based on all the facts and representations set forth in LBG's request for the extension and in related correspondence. Any change in the facts presented could result in a different conclusion and should be reported

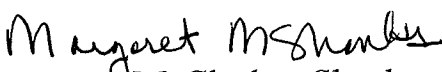
² See 12 CFR 225.171 and 225.172(b)(1).

³ See 12 CFR 225.172(b)(4).

⁴ See 12 CFR part 217.

immediately to Board staff. In addition, this action is taken in reliance on the commitments made by LBG in connection with the request for the extension. For purposes of this action, these commitments are deemed to be conditions imposed in writing by the Board in connection with the findings and discussion herein and, as such, may be enforced under applicable law.

Very truly yours,


Margaret McCloskey Shanks
Deputy Secretary of the Board