

## IMPORTANT NOTICE

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**LLOYDS TSB BANK plc**  
(incorporated with limited liability in England and Wales registered number 2065)

**€15 billion**  
**Global Covered Bond Programme**

**unconditionally and irrevocably guaranteed as to payments of interest and principal by**  
**LLOYDS TSB COVERED BONDS LLP**  
(a limited liability partnership incorporated in England and Wales registered number OC340094)

Under this €15 billion global covered bond programme (the **Programme**), Lloyds TSB Bank plc (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Lloyds TSB Covered Bonds LLP (the **LLP**) has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Portfolio (as defined below) and its other assets. Recourse against the LLP under its guarantee is limited to the Portfolio and such assets.

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €15 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

Covered Bonds may be issued on a continuing basis to the Dealer specified under *Overview of the Programme* and any additional Dealer(s) appointed under the Programme from time to time by the Issuer (each a **Dealer**, and together, the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the **relevant Dealer** shall, in the case of an issue of Covered Bonds which are to be subscribed for by one or more Dealers, be to all Dealers agreeing to subscribe for such Covered Bonds.

This Prospectus constitutes a Base Prospectus for the purposes of the Prospectus Directive - Directive 2003/71/EC. Application has been made to the Financial Services Authority (the **FSA**) which is the United Kingdom competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the **UK Listing Authority**) for approval of this Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Covered Bonds issued under the Programme to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange which is a "regulated market" for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**) (the **regulated market of the London Stock Exchange**) during the period of 12 months from the date of this Prospectus.

References in this Prospectus to Covered Bonds being listed (and all related references) shall, unless the context otherwise requires, mean that such Covered Bonds have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List.

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under *Terms and Conditions of the Covered Bonds*) of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each, a **Final Terms**) which, with respect to Covered Bonds to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets as may be agreed between the Issuer, the LLP, the Bond Trustee (as defined below) and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any regulated or unregulated market.

On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the Regulated Covered Bond (Amendment) Regulations (SI 2008/1714) (the **RCB Regulations**).

**Prospective investors should have regard to the factors described under the section headed *Risk Factors* in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Covered Bonds.**

**Prospective investors in Covered Bonds should ensure that they understand the nature of the relevant Covered Bonds and the extent of their exposure to risks and that they consider the suitability of the relevant Covered Bonds as an investment in the light of their own circumstances and financial condition. CERTAIN ISSUES OF COVERED BONDS INVOLVE A HIGH DEGREE OF RISK AND POTENTIAL INVESTORS SHOULD BE PREPARED TO SUSTAIN A LOSS OF ALL OR PART OF THEIR INVESTMENT. It is the responsibility of prospective investors to ensure that they have sufficient knowledge, experience and professional advice to make their own legal, financial, tax, accounting and other business evaluation of the merits and risks of investing in the Covered Bonds and are not relying on the advice of the Issuer, the Security Trustee (as defined herein) or Bond Trustee (as defined herein) or the relevant Dealer in that regard.**

The Covered Bonds and the Covered Bond Guarantee (defined below) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and the Covered Bonds may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless such securities are registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. See *Form of the Covered Bonds* for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds (as defined below) are subject to certain restrictions on transfer: (see *Subscription and Sale and Transfer and Selling Restrictions*).

The Issuer and the LLP may agree with the relevant Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Covered Bonds issued under the Programme are expected on issue to be assigned an "AAA" rating by Fitch Ratings Ltd. and an "Aaa" rating by Moody's Investors Service Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Arranger for the Programme**

**Lloyds TSB Corporate Markets**

**Dealer**

**Lloyds TSB Corporate Markets**

The date of this Prospectus is 7 June 2010.

This Prospectus has been approved by the UK Listing Authority as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and has been published in accordance with the prospectus rules made under the FSMA. This Prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision or order under the Securities Act.

The Issuer and the LLP (the **Responsible Persons**) each accept responsibility for the information contained in this prospectus (the **Prospectus**). To the best of the knowledge and belief of each of the Responsible Persons (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations.

Copies of each set of Final Terms (in the case of Covered Bonds to be admitted to the Official List) will be available from the registered office of the Issuer and from the specified office of each of the Paying Agents (as defined below). Final Terms relating to the Covered Bonds which are admitted to trading on the regulated market of the London Stock Exchange will be available for inspection on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/en-gb/pricesnews/marketnews/](http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/).

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see the section entitled *Documents Incorporated by Reference* below). This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

The information contained in this Prospectus was obtained from the Issuer, the Seller, the LLP and other sources, but no assurance can be given by the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee as to the accuracy or completeness of this information. None of the relevant Dealers, the Bond Trustee or the Security Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer, the Seller and the LLP in connection with the Programme. Neither the relevant Dealer, the Arranger, the Bond Trustee nor the Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer, the Seller and the LLP in connection with the Programme.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer.

No person is or has been authorised by the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the LLP. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and the LLP is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The relevant

Dealer, the Arranger, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the Seller or the LLP during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

As set forth in the applicable Final Terms, the Covered Bonds are being offered and sold (a) in reliance on Rule 144A under the Securities Act (**Rule 144A**), in each case to "qualified institutional buyers" (as defined in Rule 144A) (**QIBs**) and/or (b) in accordance with Regulation S under the Securities Act (**Regulation S**) to non-U.S. persons in offshore transactions. Prospective purchasers are hereby notified that the sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Seller, the LLP, the relevant Dealer, the Bond Trustee and the Security Trustee do not represent that this Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Seller, the LLP, the relevant Dealer, the Arranger, the Bond Trustee or the Security Trustee which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, Germany and the Republic of France) and Japan: see *Subscription and Sale and Transfer and Selling Restrictions*. This Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in a Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Prospectus as completed by a Final Terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or the relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the relevant Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or the relevant Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Covered Bonds, the relevant Dealer disclosed as the stabilising manager(s) (the **Stabilising Manager(s)**) in the applicable Final Terms or any person acting for it or them may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved.

None of the relevant Dealer, the Arranger, the Issuer, the Seller, the LLP, the Security Trustee or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

## U.S. INFORMATION

The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (the **SEC**) or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary is unlawful.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230 (**CIRCULAR 230**), COVERED BONDHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS DOCUMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY COVERED BONDHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON COVERED BONDHOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS ADDRESSED HEREIN; AND (C) COVERED BONDHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

In making an investment decision, investors must rely on their own examination of the Issuer and the LLP and the terms of the Covered Bonds being offered, including the merits and risks involved.

The Prospectus may be distributed on a confidential basis in the United States to a limited number of QIBs (as defined below) for informational use solely in connection with the consideration of the purchase of the Covered Bonds being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally distributed.

Registered Covered Bonds may be offered or sold within the United States or to U.S. persons only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Covered Bonds is hereby notified that the offer and sale of any Registered Covered Bonds to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (**Rule 144A**).

Each purchaser or holder of Covered Bonds represented by a Rule 144A Global Covered Bond, or any Covered Bond issued in registered form in exchange or substitution therefor, will be deemed by its acceptance or purchase of any such Covered Bond to have made certain representations and agreements intended to restrict the resale or other transfer of such Covered Bonds as set out in *Subscription and Sale and Transfer and Selling Restrictions*. Unless otherwise stated, terms used in this paragraph have the meanings given to them in *Form of the Covered Bonds*.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, each of the Issuer and/or, the LLP, as applicable, has undertaken in the Trust Deed to furnish, upon the request of a holder of such Covered Bonds or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer and/or, the LLP, as applicable, is neither subject to reporting under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a company and the LLP is a limited liability partnership registered in England and Wales. All of the directors of the Issuer and members of the LLP Management Board reside outside the United States and all or a substantial portion of the assets of the Issuer and the LLP are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or the LLP, as applicable, or such directors or members of the LLP Management Board, or to enforce judgments against them obtained in the United States predicated upon civil liabilities of the Issuer or the LLP, as applicable, or such directors under laws other than those of England and Wales, including any judgment predicated upon United States federal securities laws. The Issuer and the LLP have been advised by Allen & Overy LLP, their English solicitors, that there is doubt as to the enforceability in England and Wales in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

## FORWARD-LOOKING STATEMENTS

This document and the information incorporated by reference to this document includes certain "forward-looking statements". Statements that are not historical facts, including statements about the Lloyds Banking Group's or its directors' and or management's beliefs and expectations are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "aims", "potential", "will", "would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the Issuer's control and all of which are based on the Issuer's current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Lloyds Banking Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Lloyds Banking Group's present and future business strategies and the environment in which the Lloyds Banking Group will operate in the future. These forward-looking statements speak only as at the date of this document.

Investors should specifically consider all of the information set out in, and incorporated by reference into, this document before making any investment decision. In particular, investors should consider the risks, uncertainties and other factors as set out in the section headed *Risk Factors* of this document, which include general risks relating to the Lloyds Banking Group.

Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document or incorporated by reference into this document to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**Please consider carefully the risk factors set out in the section herein entitled Risk Factors.**

## **PRESENTATION OF FINANCIAL INFORMATION**

The financial information relating to the Issuer and Lloyds Banking Group plc, as incorporated by reference into this Prospectus, in respect of the financial years ended 31 December 2008 and/or 31 December 2009 has been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union (**EU**).

In this Prospectus, all references to "billions" are references to one thousand millions. Due to rounding, the numbers presented throughout this Prospectus may not add up precisely, and percentages may not precisely reflect absolute figures.

All references in this document to "**U.S. dollars**", "**U.S.\$**" and "**\$**" are to the currency of the United States of America, to "**Sterling**" and "**£**" are to the currency of the United Kingdom and to "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.



## TABLE OF CONTENTS

Principal Characteristics of the Programme .....	10
Documents Incorporated by Reference .....	11
Structure Overview .....	13
Overview of the Programme .....	20
Risk Factors.....	28
Form of the Covered Bonds .....	79
Form of Final Terms .....	82
Terms and Conditions of the Covered Bonds .....	98
Use of Proceeds .....	134
Lloyds Banking Group.....	135
The LLP .....	156
Summary of the Principal Documents .....	159
Credit Structure .....	189
Cashflows.....	193
The Portfolio .....	204
Description of the UK Regulated Covered Bond Regime .....	205
Description of Limited Liability Partnerships .....	206
Book-Entry Clearance Systems .....	207
Taxation .....	211
Subscription and Sale and Transfer and Selling Restrictions .....	220
General Information.....	227
Glossary .....	230

## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

<b>Issuer:</b>	Lloyds TSB Bank plc was incorporated on 20 April 1865 (Registration number 2065). The Issuer's registered office is at 25 Gresham Street, London EC2V 7HN, telephone number 020 7626 1500. The Issuer is a wholly owned subsidiary of Lloyds Banking Group plc (the <b>Company</b> ). The Company and its subsidiaries from time to time are referred to as the <b>Lloyds Banking Group</b> or the <b>Group</b> .
<b>Guarantor:</b>	Lloyds TSB Covered Bonds LLP
<b>Regulated Covered Bonds:</b>	On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations.
<b>Nature of eligible property:</b>	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
<b>Location of eligible residential property underlying Loans:</b>	England, Wales or Scotland
<b>Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:</b>	75.0 per cent.
<b>Maximum Asset Percentage:</b>	93.0 per cent.
<b>Extended Maturities:</b>	Available
<b>Hard Bullet Option:</b>	Available
<b>Asset Monitor:</b>	PricewaterhouseCoopers LLP
<b>Asset Segregation:</b>	Yes
<b>Namenschuldverschreibungen option:</b>	No

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents:

### **Lloyds Banking Group plc financial statements:**

- (i) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 127 to 248 and 126, respectively, of the Company's Annual Report and Accounts 2009 (the **Company's 2009 Annual Report**); and
- (ii) The audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 97 to 181 and 96, respectively, of the Company's Annual Report and Accounts 2008;

### **Lloyds TSB Bank plc financial statements:**

- (i) The Issuer's Annual Report and Accounts 2009, including the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 10 to 106 and 9, respectively; and
- (ii) The audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 11 to 107 and 9 to 10, respectively, of the Issuer's Annual Report and Accounts 2008;

### **HBOS plc financial statements:**

- (i) HBOS plc's Annual Report and Accounts 2009, including the audited consolidated annual financial statements of HBOS plc for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 12 to 116 and 10 to 11, respectively; and
- (ii) The audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 41 to 45, 48 to 140 and 40, respectively, of HBOS's Annual Report and Accounts 2008;

### **Other documents incorporated by reference:**

- (i) The following sections of the Company's 2009 Annual Report:
  - the portion of the risk governance section as set out on pages 57 to 62 together with Table 1.3 and the paragraphs under the heading "Risk Drivers" on page 63 thereof;
  - the portion of the corporate governance section set out on pages 100 to 102 thereof;
  - the fourth complete paragraph on page 19 (together with note 12 on page 159); and
  - the first sentence of the third complete paragraph on page 21; and
- (ii) The interim management statement of the Company for the three months ended 31 March 2010 published on 27 April 2010 save for the second sentence of the last paragraph under "Good trading performance with guidance reaffirmed",

all of which have been previously published and filed with the FSA and which shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents should be directed to the Issuer at its principal office set out at the end of this Prospectus.

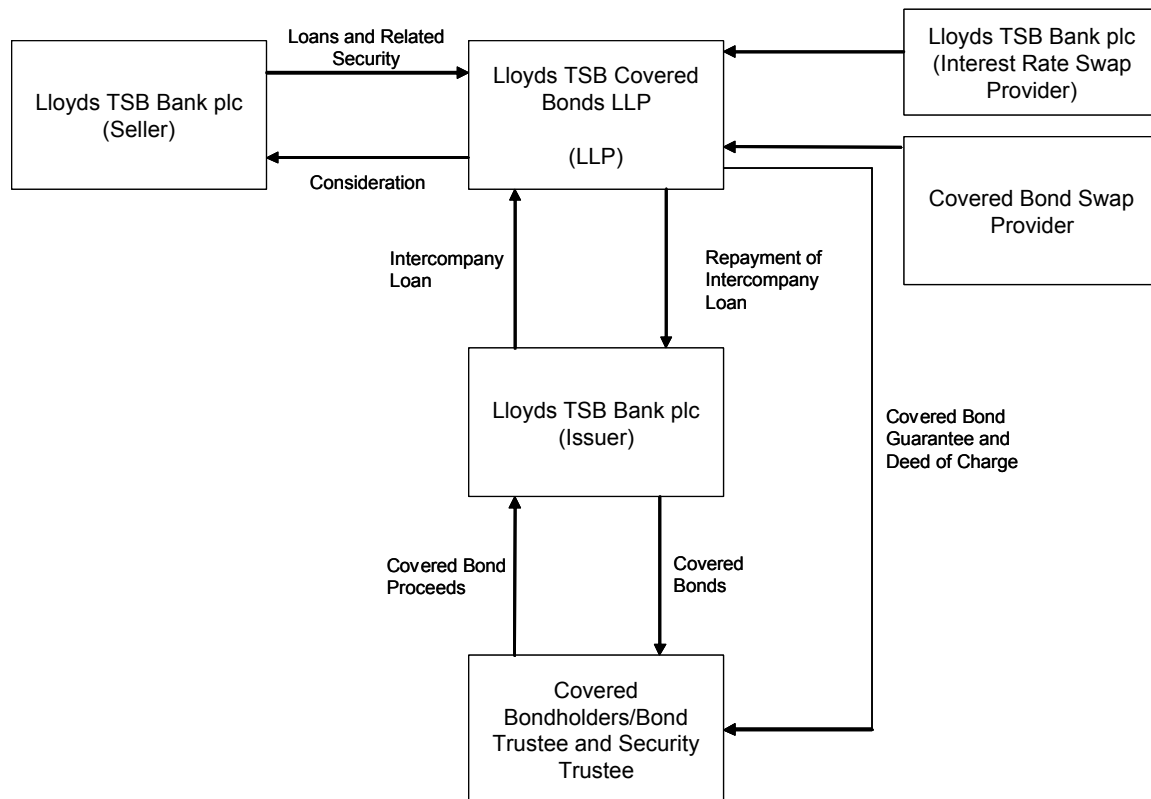
The Issuer and the LLP will, in the event of any significant new factor, material mistake or inaccuracy relating to information included or incorporated by reference in this Prospectus which is capable of affecting the

assessment of any Covered Bonds, prepare a supplement to this Prospectus (a **Supplementary Prospectus**) or publish a new prospectus for use in connection with any subsequent issue of Covered Bonds. Each of the Issuer and the LLP has undertaken to the relevant Dealer in the Programme Agreement (as defined in the section entitled "Subscription and Sale" of this Prospectus) that it will comply with section 87G of the FSMA.

## STRUCTURE OVERVIEW

*This overview must be read as an introduction to this Prospectus and any decision to invest in the Covered Bonds should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms used in this document is contained at the end of this Prospectus.*

### Structure Diagram



### Structure Overview

- Programme:** Under the terms of the Programme, the Issuer will issue Covered Bonds to Covered Bondholders on each Issue Date. The Covered Bonds will be direct, unsecured and unconditional obligations of the Issuer.
- Intercompany Loan Agreement:** Under the terms of the Intercompany Loan Agreement, the Issuer will make Term Advances to the LLP in an amount equal to either (i) the nominal value of each Series, or as applicable, Tranche of Covered Bonds or (ii) the Sterling Equivalent of the nominal value of each Tranche of Covered Bonds. Payments by the Issuer of amounts due under the Covered Bonds are not conditional upon receipt by the Issuer of payments from the LLP pursuant to the Intercompany Loan Agreement. Amounts owed by the LLP under the Intercompany Loan Agreement will be subordinated to amounts owed by the LLP under the Covered Bond Guarantee.
- Covered Bond Guarantee:** Under the terms of the Trust Deed, the LLP has provided a guarantee as to payments of interest and principal under the Covered Bonds. The LLP has agreed to pay an amount equal to the Guaranteed Amounts when the same shall become Due for Payment but which would otherwise be unpaid by the Issuer. The obligations of the LLP under the Covered Bond Guarantee constitute direct and (following service of a Notice to Pay or an LLP Acceleration Notice) unconditional obligations of the LLP, secured as provided in the Deed of Charge. The Bond Trustee will be required to serve a Notice to Pay on the LLP following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice. An LLP Acceleration Notice may be served by the Bond Trustee on the LLP following the occurrence of an LLP Event of Default.

If an LLP Acceleration Notice is served, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the LLP's obligations under the Covered Bond Guarantee will be accelerated. Payments made by the LLP under the Covered Bond Guarantee will be made subject to, and in accordance with, the Guarantee Priority of Payments, or, as the case may be, the Post-Enforcement Priority of Payments. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the assets of the LLP from time to time.

- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, upon exchange into Sterling under the applicable Non-Forward Starting Covered Bond Swap):
  - (a) to purchase Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
  - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit,
 to the extent required to meet the Asset Coverage Test and the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and such proceeds may thereafter be applied by the LLP:
  - (a) to purchase Loans and their Related Security from the Seller in accordance with the Mortgage Sale Agreement; and/or
  - (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
  - (c) (subject to complying with the Asset Coverage Test, as described below) to make a Capital Distribution to a Member; and/or
  - (d) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
  - (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount).

To protect the value of the Portfolio, under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described above) will be satisfied on each Calculation Date.
- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Sale Date will be a combination of:
  - (a) a cash payment made by the LLP to the Seller from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;
  - (b) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the aggregate Current Balance of the Loans sold by the Seller as at the relevant Sale Date and the aggregate cash payment (if any) made by the LLP); and/or
  - (c) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available funds and after the making of any provisions in accordance with normal accounting practice) in accordance with the relevant Priorities of Payments.
- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and any Authorised Investments it holds) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.
- *Cashflows:* Provided no Asset Coverage Test Breach Notice is outstanding, prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:

- apply Available Revenue Receipts to pay any amounts due (excluding principal amounts) on the Term Advances to the Issuer, to pay certain expenses and amounts due to the Covered Bond Swap Provider and to pay Deferred Consideration (including any Postponed Deferred Consideration) to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, without limitation, certain expenses and amounts due to the Interest Rate Swap Provider, amounts required to be credited to the GIC Account with a corresponding credit to the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
- apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, without limitation, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Liquidity Test, acquiring New Loans and their Related Security offered by the Seller to the LLP and making repayments of corresponding Term Advances). For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

For so long as an Asset Coverage Test Breach Notice is outstanding, but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will continue to apply Available Revenue Receipts and Available Principal Receipts as described above, except that, whilst any Covered Bonds remain outstanding:

- in respect of Available Revenue Receipts, no further amounts will be paid to the Issuer under the Intercompany Loan Agreement, towards any indemnity amount due to the Members pursuant to the LLP Deed or any indemnity amount due to the Asset Monitor pursuant to the Asset Monitor Agreement, towards any Deferred Consideration or towards any profit for the Members' respective interests in the LLP (but payments will, for the avoidance of doubt, continue to be made under the relevant Swap Agreements);
- in respect of Available Principal Receipts, no payments will be made to acquire New Loans and their Related Security, other than after sufficient amounts have been credited to the GIC Account to ensure that the LLP is in compliance with the Asset Coverage Test after exchange into Sterling (if required) in accordance with the relevant Covered Bond Swap (see *Cashflows* below), and have been paid to any of the Covered Bond Swap Providers to the extent due pursuant to the Covered Bond Swap Agreement.

Following service of a Notice to Pay on the Issuer and the LLP (but prior to service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP) the LLP will use all moneys (other than Third Party Amounts, Tax Credits (including, for the avoidance of doubt, any amounts received by the LLP from a Member in respect of Tax Credits), Swap Collateral Excluded Amounts and Swap Provider Tax payments) to pay Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment subject to paying certain higher ranking obligations of the LLP in the Guarantee Priority of Payments. In such circumstances, the Seller (as a Member of the LLP) will only be entitled to receive any remaining income of the LLP after all amounts due under the Covered Bond Guarantee in respect of the Covered Bonds have been paid in full or have otherwise been provided for.

Following service of an LLP Acceleration Notice on the LLP and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the Covered Bonds will become immediately due and repayable (if not already due and repayable following service of an Issuer Acceleration Notice) and the Bond Trustee will then have a claim against the LLP under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amounts due under the Covered Bonds other than additional amounts payable under Condition 7 (*Taxation*), and the Security created by the LLP over the Charged Property will become enforceable. Any moneys received or recovered by the Security Trustee following enforcement of the Security created by the LLP in accordance with the Deed of Charge, realisation of such Security and/or the commencement of winding-up proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments, see *Cashflows* below.

- *Asset Coverage Test:* The Programme provides that the assets of the LLP are subject to an Asset Coverage Test in respect of the Covered Bonds. Accordingly, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that, on each Calculation Date (prior to service of a Notice to Pay or LLP Acceleration Notice on the LLP), the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on such Calculation Date. The Asset Coverage Test will be carried out by the Cash Manager on each Calculation Date. A breach of the Asset Coverage Test on a Calculation Date which is not remedied on the immediately succeeding Calculation Date will require the Bond Trustee to serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following service of such Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and remains outstanding:

- (a) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in *Cashflows - Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below;
- (b) the LLP will be required to sell Selected Loans; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

- *Amortisation Test:* Following the service of a Notice to Pay (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) and, for so long as Covered Bonds remain outstanding, the LLP and the Members (other than the Liquidation Member) must ensure that on each following Calculation Date, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding of the Covered Bonds on such Calculation Date. The Amortisation Test will be carried out by the Cash Manager on each Calculation Date following service of a Notice to Pay. A breach of the Amortisation Test will constitute an LLP Event of Default. Following the occurrence of an LLP Event of Default, the Bond Trustee may by service of an LLP Acceleration Notice accelerate the obligations of the Issuer under the Covered Bonds and require all amounts under the Covered Bond Guarantee to become immediately due and repayable. Thereafter, the Security Trustee may enforce the Security over the Charged Property.
- *Extendable obligations under the Covered Bond Guarantee:* An Extended Due for Payment Date may be specified as applicable in relation to a Series of Covered Bonds in the applicable Final Terms. This means that if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on the Final Maturity Date (subject to the applicable grace period), a Notice to Pay is served and if the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds are not paid in full by the Extension Determination Date (for example because, following service of a Notice to Pay, the LLP has insufficient moneys available in accordance with the Guarantee Priority of Payments to pay in full the Guaranteed Amounts equal to the Final Redemption Amount of the relevant Series of Covered Bonds), then payment of the unpaid portion of the Final Redemption Amount pursuant to the Covered Bond Guarantee shall be automatically deferred (without an LLP Event of Default occurring as a result of such non-payment). The unpaid portion of the Final Redemption Amount shall be due and repayable one year later on the Extended Due for Payment Date (subject to the applicable grace period and provided that the LLP shall, to the extent it has the funds available to it, pay such unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date). The LLP will pay the Guaranteed

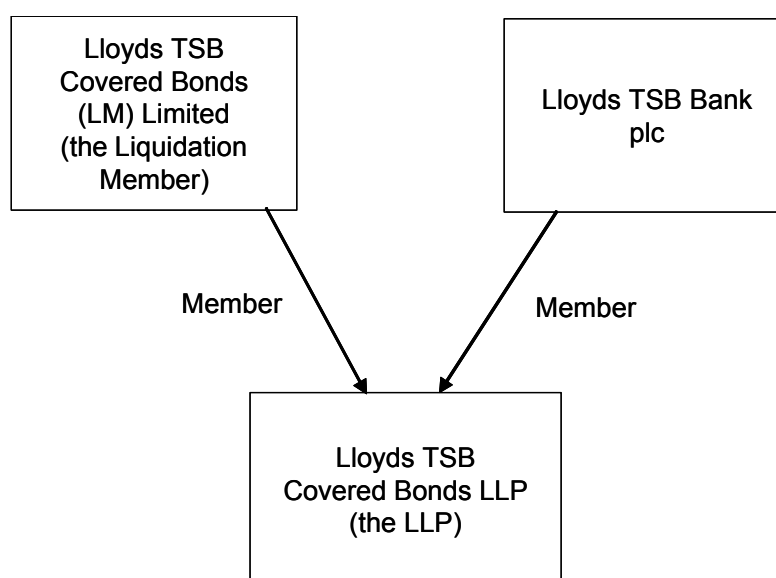


Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date.

- *Pre-Maturity Liquidity Test:* Hard Bullet Covered Bonds will be subject to a Pre-Maturity Liquidity Test. This provides liquidity for Hard Bullet Covered Bonds if the Issuer's credit ratings fall to or below the specified level. On each Pre-Maturity Liquidity Test Date of any Series of Hard Bullet Covered Bonds and prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP, or the Cash Manager on its behalf, will determine if there has been a breach of the Pre-Maturity Liquidity Test, and if so, it shall immediately notify the Members and the Security Trustee thereof. Following such breach, the LLP shall offer to sell Selected Loans subject to (a) any Cash Capital Contribution made by the Members (other than the Liquidation Member) from time to time; and (b) any right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Sale Agreement. An Issuer Event of Default shall occur if the Pre-Maturity Liquidity Test is breached during the Pre-Maturity Liquidity Test Breach Period and the relevant parties have not taken the required action (as described above) following the breach within the earlier to occur of (i) 10 business days from the date that the Seller and the LLP are notified of the breach of the Pre-Maturity Liquidity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds such that by the end of such period, there shall be an amount equal to the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).
- *Servicing:* In its capacity as Servicer, C&G has entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which it has agreed to provide or procure the provision of certain services in respect of the Loans and their Related Security sold by the Seller to the LLP. For so long as the Servicer is C&G, the Servicer's obligations under the Servicing Agreement will receive the benefit of the Parent Support Deed.
- *Risk Factors:* Lloyds TSB Bank plc and the Lloyds Banking Group may be subject to a number of risks set out below in *Risk Factors* which include: risks concerning general and sector specific UK and international economic conditions and further adverse economic developments; risks concerning material changes to the estimated fair values of financial assets of the Issuer; risks of failing to realise benefits from, and incurring unanticipated costs associated with, the acquisition of HBOS by Lloyds Banking Group plc; risks associated with the shareholding of The Commissioners of Her Majesty's Treasury (**HM Treasury**); risks relating to the aid given by HM Treasury to the Group being subject to state aid review; risks associated with reform of the structure and regulation of the banking system set out in a White Paper issued by the UK Government in July 2009; risks arising from certain undertakings provided to HM Treasury in relation to the operation of the Group's business; risks of material negative changes to the estimated fair values of financial assets of the Group; the risk of market fluctuations; risks concerning counterparty credit quality, liquidity and insufficient capital resources; risks concerning changing demographic developments, changing customer behaviour, adverse weather and similar contingencies outside its control; terrorist acts and other acts of war; legal and regulatory risk including risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice; risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour; risks relating to contributing to compensation schemes in respect of banks and other authorised financial services firms in the UK that are unable to meet their obligations to customers; risks of assumptions and estimates on which the Group's financial statements are based being wrong; risk of reliance on dividends from subsidiaries; and tax risk associated with changes in, or errors in the interpretation of, taxation rates or law. The LLP relies on a servicer to provide calculation and other servicing functions in relation to the Loans. Failure of the servicer to perform these functions could affect payment on the Covered Bonds. Further, the LLP relies on swap providers to hedge against possible variances in the rates of interest payable on the Loans in the Portfolio and to hedge against interest rate and currency risks in respect of amounts received by the LLP on the Loans in the Portfolio and amounts payable by the LLP under the Covered Bond Guarantee. The performance of the swap providers and the LLP under their mutual swap agreements can affect both rating of and payment on the Covered Bonds.
- *Further Information:* For a more detailed description of the transactions and factors summarised above relating to the Covered Bonds see, amongst other relevant sections of this Prospectus, *Risk Factors*, *Overview of the Programme*, *Terms and Conditions of the Covered Bonds*, *Summary of the Principal Documents*, *Credit Structure*, *Cashflows* and *The Portfolio* below.

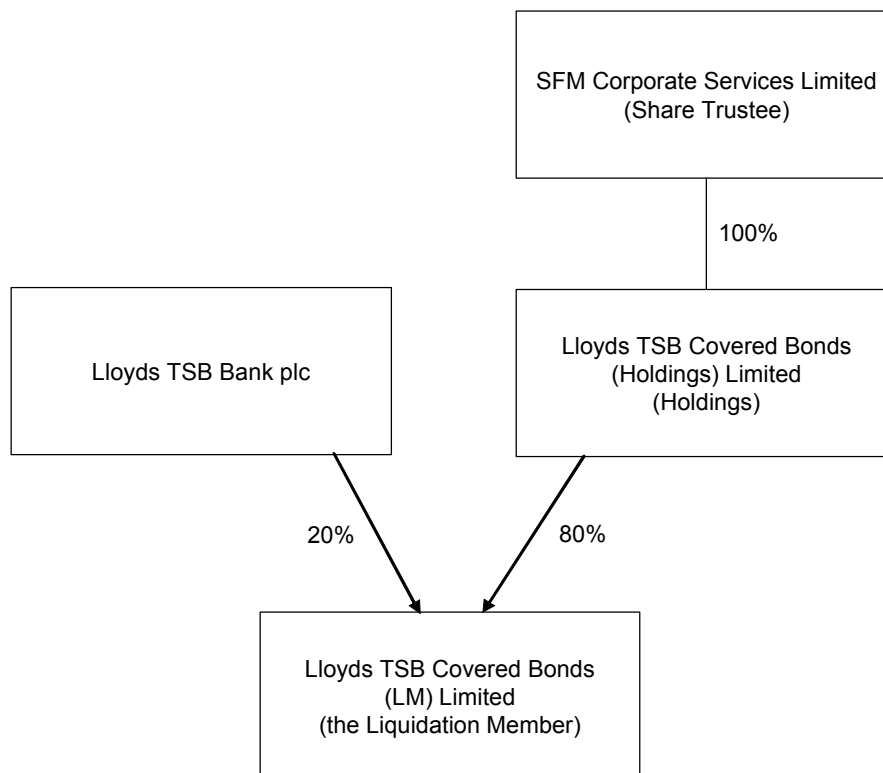
### Ownership Structure of Lloyds TSB Covered Bonds LLP

- As at the Programme Date the Members of the LLP are Lloyds TSB Bank plc and the Liquidation Member.
- Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP (as described under *Summary of the Principal Documents – Mortgage Sale Agreement* below) will, amongst other things, be required to become a Member of the LLP and will accede to, *inter alia*, the LLP Deed.
- Other than in respect of those decisions reserved to the Members, the LLP Management Board (comprised of, as at the Programme Date, directors, officers and/or employees of Lloyds Banking Group appointed by Lloyds TSB Bank plc) will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP.
- In the event of a liquidation or administration of Lloyds TSB Bank plc or a disposal of Lloyds TSB Bank plc's interest in the Liquidation Member such that Lloyds TSB Bank plc holds less than 20 per cent. of the share capital of the Liquidation Member (without the consent of the LLP and, whilst any Covered Bonds are outstanding, the Security Trustee), Lloyds TSB Bank plc will automatically cease to be a Member of the LLP, the balance of any Capital Contributions outstanding of Lloyds TSB Bank plc as at the date it ceases to be a Member in the LLP will be converted into a subordinated debt obligation owed by the LLP to Lloyds TSB Bank plc under the LLP Deed and the Liquidation Member will appoint a new Member of the LLP (which is a wholly-owned subsidiary of the Liquidation Member) pursuant to the terms of the LLP Deed. See further *Summary of the Principal Documents – LLP Deed* below.



### Ownership Structure of the Liquidation Member

- As at the Programme Date, the issued share capital of the Liquidation Member is held 20 per cent. by Lloyds TSB Bank plc and 80 per cent. by Lloyds TSB Covered Bonds (Holdings) Limited (**Holdings**).
- The issued capital of Holdings is held 100 per cent. by SFM Corporate Services Limited as Share Trustee on trust for the benefit of certain discretionary objects.



## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms. Words and expressions defined elsewhere in this Prospectus shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Prospectus.

Issuer: Lloyds TSB Bank plc

Lloyds TSB Bank plc (the **Issuer**) was incorporated in England and Wales on 20 April 1865 (Registration number 2065). The Issuer's registered office is at 25 Gresham Street, London EC2V 7HN. The Issuer is a wholly owned subsidiary of Lloyds Banking Group plc (the **Company**). The Company and its subsidiaries from time to time are referred to as the **Lloyds Banking Group** or the **Group**.

The businesses of the Lloyds Banking Group are in or owned by the Issuer. Lloyds Banking Group is a leading UK-based financial services group, providing a wide range of banking and financial services in the UK and a limited number of locations overseas to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

LLP: Lloyds TSB Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC340094). The LLP is a subsidiary of Lloyds TSB Bank plc and its Members on the Programme Date are Lloyds TSB Bank plc and the Liquidation Member. The LLP is a special purpose vehicle whose business is to borrow Term Advances from the Issuer, acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

The LLP has provided a guarantee covering all Guaranteed Amounts when the same shall become Due for Payment, but only following service of a Notice to Pay or an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party are secured by the assets from time to time of the LLP and recourse against the LLP is limited to such assets.

For a more detailed description of the LLP, see *The LLP* below.

Seller: Lloyds TSB Bank plc acting through its office c/o C&G, Barnett Way, Gloucester GL4 3RL, which is in the business of originating residential mortgage loans and other banking activities.

For a more detailed description of the Seller, see *Lloyds Banking Group* below.

Servicer: C&G has been appointed to service or procure the service of, on behalf of the LLP, the Loans and Related Security in the Portfolio pursuant to the terms of the Servicing Agreement. For so long as the Servicer is C&G, the Servicer's obligations under the Servicing Agreement will receive the benefit of the Parent Support Deed.

Cash Manager: C&G has also been appointed, *inter alia*, to provide cash management services to the LLP and to monitor compliance by the LLP with the Asset Coverage Test, the Amortisation Test and the Pre-maturity Liquidity Test pursuant to the Cash Management Agreement. For so long as the Cash Manager is C&G, the Cash Manager's obligations

under the Cash Management Agreement will receive the benefit of the Parent Support Deed.

Principal Paying Agent and Agent Bank:	The Bank of New York Mellon acting through its office at 40th Floor, One Canada Square, London E14 5AL, has been appointed pursuant to the Agency Agreement as Principal Paying Agent and Agent Bank.
Exchange Agent:	The Bank of New York Mellon acting through its office at 40th Floor, One Canada Square, London E14 5AL, has been appointed pursuant to the Agency Agreement as exchange agent.
Registrar:	The Bank of New York Mellon Luxembourg S.A., whose registered office is at Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg, has been appointed pursuant to the Agency Agreement as registrar.
Bond Trustee:	BNY Corporate Trustee Services Limited, acting through its office at 40th Floor, One Canada Square, London, E14 5AL, has been appointed to act as bond trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Security Trustee:	BNY Corporate Trustee Services Limited, acting through its office at 40th Floor, One Canada Square, London, E14 5AL, has been appointed to act as security trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the Covered Bondholders and the other Secured Creditors) under the Deed of Charge.
Asset Monitor:	PricewaterhouseCoopers LLP has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
Covered Bond Swap Provider:	<p>Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and:</p> <ul style="list-style-type: none"><li>(a) in the case of a Non-Forward Starting Covered Bond Swap, amounts due and payable by the LLP under the Intercompany Loan Agreement or, if a Notice to Pay or an LLP Acceleration Notice has been served, under the Covered Bond Guarantee; or</li><li>(b) in the case of a Forward Starting Covered Bond Swap, if a Notice to Pay or an LLP Acceleration Notice has been served, amounts due and payable by the LLP under the Covered Bond Guarantee,</li></ul> <p>in respect of the Covered Bonds by entering into Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider may be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or put in place some other arrangements in order to maintain the then current ratings of the Covered Bonds. Lloyds TSB Bank plc or such other person referred to in a Covered Bond Swap Agreement may act as Covered Bond Swap Provider.</p>
Interest Rate Swap Provider:	Lloyds TSB Bank plc acting through its office c/o C&G, Barnett Way, Gloucester GL4 3RL, has agreed to act as interest rate swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for

periodic Sterling deposits by entering into Interest Rate Swap with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to post collateral for its obligations, transfer its obligations to an appropriately rated entity, obtain a guarantee of its obligations from an appropriately rated guarantor and/or put in place other appropriate credit support arrangements (in order to maintain the then current ratings of the Covered Bonds) in the event that its ratings fall below a specified ratings level.

GIC Provider:	Lloyds TSB Bank plc, acting through its office at 10 Gresham Street, London, EC2V 7AE, has agreed to act as GIC Provider to the LLP pursuant to the Bank Account Agreement and the Guaranteed Investment Contract.
Account Bank:	Lloyds TSB Bank plc, acting through its office at 10 Gresham Street, London EC2V 7AE (with respect to the GIC Account) and through its branch at City Office Branch, P.O. Box 72, Bailey Drive, Gillingham, Kent, ME8 0L5 (with respect to the Transaction Account) has agreed to act as an Account Bank to the LLP pursuant to the Bank Account Agreement.
Liquidation Member:	Lloyds TSB Covered Bonds (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6696578). The Liquidation Member is 80 per cent. owned by Holdings and 20 per cent. owned by Lloyds TSB Bank plc.
Holdings:	Lloyds TSB Covered Bonds (Holdings) Limited a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6696506). All of the shares of Holdings are held by the Share Trustee on trust for the benefit of certain discretionary objects.
Share Trustee:	SFM Corporate Services Limited, acting through its office at 35 Great St. Helen's, London EC3A 6AP holds all of the shares of Holdings on trust for the benefit of certain discretionary objects.
Corporate Services Provider:	Structured Finance Management Limited, acting through its office at 35 Great St. Helen's, London EC3A 6AP has been appointed to provide certain corporate services to the Liquidation Member, Holdings and the LLP, respectively, pursuant to the Corporate Services Agreement.
Programme description:	Global Covered Bond Programme.
Arranger:	Lloyds TSB Bank plc acting through its office at 10 Gresham Street, London EC2V 7AE.
Relevant Dealer:	To be selected from time to time in accordance with the terms of the Programme Agreement. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc (referred to throughout this Prospectus as the <b>Dealer</b> ).
Certain restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See <i>Subscription and Sale and Transfer and Selling Restrictions</i> below.
Programme size:	Up to €15 billion (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time as described herein. The Issuer and the LLP may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Subscription and Sale and Transfer</i>

and Selling Restrictions below.

Specified Currency:	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
Redenomination:	The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by any relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued at par or at a premium or at a discount to par on a fully-paid or partly-paid basis.
Form of Covered Bonds:	The Covered Bonds may be issued in bearer or registered form as described in <i>Form of the Covered Bonds</i> . Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and <i>vice versa</i> .
Fixed Rate Covered Bonds:	Fixed Rate Covered Bonds will bear interest at a fixed rate, which will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer (as set out in the applicable Final Terms).
Floating Rate Covered Bonds:	<p>Floating Rate Covered Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> <p>as set out in the applicable Final Terms.</p> <p>The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.</p>
Index Linked Interest Covered Bonds:	Payments of interest in respect of Index Linked Interest Covered Bonds will be calculated by reference to a single index or a basket of indices and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree, as set out in the applicable Final Terms.
Index Linked Redemption Covered Bonds:	Payments of principal in respect of Index Linked Redemption Covered Bonds will be calculated by reference to a single index or basket of indices. Each nominal amount of Covered Bonds equal to the Calculation Amount specified in the relevant Final Terms will be redeemed by payment of the Final Redemption Amount(s) specified in the relevant Final Terms or, if not so specified, as defined in the Terms and Conditions of the Covered Bonds.
Credit Linked Interest Covered Bonds and Equity Linked Interest Covered Bonds:	Payments of interest in respect of Credit Linked Interest Covered Bonds and Equity Linked Interest Covered Bonds will be calculated by reference to the price, value, performance or some other factor relating to one or more reference assets and/or the creditworthiness or,

	performance of obligations by or some other factor relating to one or more reference entities, as set out in the applicable Final Terms.
Equity Linked Redemption Covered Bonds:	Payments of principal in respect of Equity Linked Redemption Covered Bonds will be calculated by reference to a single equity security or basket of equity securities. Each nominal amount of Covered Bonds equal to the Calculation Amount will be redeemed by payment of the Final Redemption Amount(s), in each case, specified in the relevant Final Terms. Equity Linked Redemption Covered Bonds may also provide for redemption by physical delivery of Asset Amount(s).
Other provisions in relation to Floating Rate Covered Bonds and Variable Interest Covered Bonds:	Floating Rate Covered Bonds and Variable Interest Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer.
Currency Linked Covered Bonds:	Payments (of principal or interest and/or at maturity or otherwise) in respect of Currency Linked Covered Bonds will be made in such currencies, and by reference to such rates of exchange and/or such formulae, as specified in the relevant Final Terms.
Dual Currency Linked Covered Bonds:	Payments (of principal and/or interest at maturity or otherwise) in respect of Dual Currency Linked Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as set out in the applicable Final Terms).
Variable Interest Covered Bonds:	Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable are referred to as <b>Variable Interest Covered Bonds</b> .
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
Partly-Paid Covered Bonds:	Covered Bonds may be issued on a partly-paid basis in which case interest will accrue on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.
Instalment Covered Bonds:	Covered Bonds may be issued on an instalment basis in which case such Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
Hard Bullet Covered Bonds:	The applicable Final Terms may provide that certain Series of Covered Bonds may be scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for an Extended Due for Payment Date under the Covered Bond Guarantee (the <b>Hard Bullet Covered Bonds</b> ). In such a case, on each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Liquidity Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.
Redemption:	The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that such Covered Bonds cannot be redeemed prior to their stated maturity (other than, if applicable, in specified instalments, for taxation reasons or if it becomes unlawful for any Term Advance to



remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable or, following purchase of such Covered Bonds by the Issuer or any of its subsidiaries (including the LLP), any holding company of the Issuer or any subsidiary of any such holding company, cancellable at the option of the Issuer and/or the Covered Bondholders upon appropriate notice in accordance with the Terms and Conditions or such other period of notice (if any) as is indicated in the applicable Final Terms to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of the Registered Covered Bonds) and the Covered Bondholders or to the Issuer (as the case may be), on one or more specified dates prior to their stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer (as set out in the applicable Final Terms).

The applicable Final Terms may provide that Covered Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

The applicable Final Terms may provide for the calculation of the Final Redemption Amount by reference to a formula or other variable that may result in the redemption of the relevant Covered Bonds at less than 100 per cent. of their nominal amount.

Extendable obligations under the Covered Bond Guarantee:

The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts equal to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date may be deferred until the Extended Due for Payment Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (in each case subject to the applicable grace period), a Notice to Pay has been served and the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because the LLP has insufficient moneys to pay in full the Guaranteed Amounts equal to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay by the time specified in Condition 6.1 (*Final redemption*) and has sufficient moneys under the Guarantee Priority of Payments to pay in part the Final Redemption Amount, partial payment of the Final Redemption Amount shall be made as described in Condition 6.1 (*Final redemption*). The LLP shall to the extent it has the funds available to it make payments in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount up to the Extended Due for Payment Date in accordance with Condition 4 (*Interest and other Calculations*) and the LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date.

Denomination of Covered Bonds:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms save that the minimum denomination of each Covered Bond admitted to trading on an EEA exchange and/or offered to the public in an EEA state in circumstances which require the publication of a prospectus under the Prospectus Directive will be at least €50,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency) or such other

higher amount as may be required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise stated in the applicable Final Terms, the minimum denomination of each Definitive Rule 144A Covered Bond will be U.S.\$100,000, or its approximate equivalent in other Specified Currencies.

Taxation:	All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes, save as provided in Condition 7 ( <i>Taxation</i> ). If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7 ( <i>Taxation</i> ), be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7 ( <i>Taxation</i> ).
Cross Default for Covered Bonds:	If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds then outstanding will be accelerated.
Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Notice to Pay or an LLP Acceleration Notice has been served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Ratings:	Covered Bonds to be issued under the Programme will at the time of issue, unless otherwise specified in the applicable Final Terms, be rated "AAA" by Fitch and "Aaa" by Moody's.
Listing and admission to trading:	<p>Application has been made to the UK Listing Authority for Covered Bonds issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange during the period of 12 months from the date of this Prospectus.</p> <p>Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant Dealer in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.</p>
The Regulated Covered Bonds Regulations 2008:	On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds

pursuant to Regulation 14 of the RCB Regulations.

Governing law:	The Covered Bonds will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, Germany and the Republic of France) and Japan. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See Subscription and Sale and Transfer and Selling Restrictions.
Risk Factors:	There are certain risks related to any issue of Covered Bonds under the programme, which investors should ensure they fully understand, a non-exhaustive summary of which is set out under <i>Risk Factors</i> below.

## RISK FACTORS

*The Issuer and the LLP believe that the following factors may affect their ability to fulfil their respective obligations under the Covered Bonds issued under the Programme and the Covered Bond Guarantee respectively. Most of these factors are contingencies which may or may not occur, and neither the Issuer nor the LLP is in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Covered Bonds are also described below.*

*Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Covered Bonds. Prospective investors should also note that the risks described below are not the only risks the Issuer and the LLP face. The Issuer and the LLP have described only those risks that they consider to be material. There may be additional risks that each of the Issuer and the LLP currently consider not to be material or of which it is not currently aware, and any of these risks could have a material adverse effect on the Issuer's business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Covered Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Covered Bonds or the rights of investors under the Covered Bonds and, as a result, investors could lose some or all of their investment.*

*The Lloyds Banking Group's operating results, financial condition and prospects could be materially and adversely affected by any of the risks described in the section entitled "Risk factors relating to the Lloyds Banking Group" below. The section entitled "Risk factors relating to the Lloyds Banking Group" describes the risk factors which are considered by the Issuer and the LLP to be material in relation to the Lloyds Banking Group.*

*As stated above, the risks set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Issuer or the LLP, or which they currently deem immaterial, may also have an adverse effect on the Lloyds Banking Group's operating results, financial condition and prospects or upon the Covered Bonds. The information given is as of the date of this Prospectus and, except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified under "Forward-Looking Statements" on page 7 of this Prospectus.*

### RISK FACTORS RELATING TO THE LLOYDS BANKING GROUP

#### 1 Risks relating to the Group

- 1.1 *The Commissioners of Her Majesty's Treasury (**HM Treasury**) is the largest shareholder of the Company. Through its shareholding in, and other relationships with, the Company, HM Treasury is in a position to exert significant influence over the Group and its business.*

HM Treasury holds approximately 41 per cent. of the ordinary share capital of the Company. This follows a dilution in February 2010 associated with the two exchange offers announced by the Group on 3 November 2009 (the **Exchange Offers**) and a further dilution in May 2010 following an additional liability management exercise. In the longer term, the Exchange Offers could lead to further dilution of the HM Treasury shareholding through the potential conversion of the enhanced capital notes (the **Enhanced Capital Notes** or **ECNs**), into ordinary shares pursuant to their terms. It is not possible to calculate precisely the total dilutive effect any potential conversion of ECNs may have on HM Treasury's ownership interest in the Company but HM Treasury is expected to remain a significant shareholder in the Company.

In the longer term, it may become necessary for the Group to raise further capital or seek the support of the UK Government. Any such capital raising or support from the UK Government could result in an increase in HM Treasury's shareholding in the Company.

No formal "relationship agreement" has been concluded between the Group and the UK Government in respect of its shareholding in the Company and no specific measures are in place to limit the level of control which may be exercised by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments Limited (**UKFI**) published on 13 July 2009. The framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined herein)

(including with respect to individual lending or remuneration decisions)". This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)". Nevertheless, there is a risk that HM Treasury might seek to exert influence over the Group, and may disagree with the commercial decisions of the Group, including over such matters as the implementation of synergies, commercial and consumer lending policies and management of the Group's assets and/or business.

There is also a risk that, through its interests in the Company, the UK Government and HM Treasury may be able to influence the Group in other ways that would have a material adverse effect on the Group's business, including among other things, the election of directors, the appointment of senior management at the Company, staff remuneration policies, lending policies and commitments, management of the Group's business including, in particular, management of the Group's assets such as its existing retail and corporate loan portfolios, significant corporate transactions and the issue of new ordinary shares. Shareholders may disagree as to whether an action opposed or supported by HM Treasury is in the best interests of the Group generally. Furthermore, HM Treasury also has interests in other UK financial institutions, as well as an interest in the health of the UK banking industry and other industries generally, and those interests may not always be aligned with the commercial interests of the Group or its shareholders.

- 1.2 *The Group is subject to European state aid obligations following the approval of its restructuring plan by the European Commission on 18 November 2009. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group. Moreover, should a third party successfully challenge the European Commission's decision to approve the Group's restructuring plan, or should the Group require additional state aid in the future, further restructuring measures could be required and these may be materially adverse to the interests of the Group.*

As a result of HM Treasury's investment in the Company in the context of the placing and open offer in November 2008, the Group has been required to cooperate with HM Treasury to submit a restructuring plan to the European Commission setting out the Group's plans to restructure and return to a position of viability in which it no longer relies on state aid, including the aid received pursuant to its participation in HM Treasury's credit guarantee scheme (the **Credit Guarantee Scheme**) which was announced on 8 October 2008.

On 18 November 2009 the European Commission, through its College of Commissioners, approved the Group's restructuring plan. The principal elements of the plan address competition distortions from all elements of state aid that the Group has received, including HM Treasury's participation in the placing and compensatory open offer in June 2009 and the rights issue in November 2009 (the **Rights Issue**), as well as any commercial benefit received by the Group following its announcement in March 2009 of the intention it held at that time to participate in the Government Asset Protection Scheme (**GAPS**). The approval also covers the Group's ongoing participation in HM Treasury's Credit Guarantee Scheme at current levels up to June 2010. The Company has agreed with HM Treasury in the deed of withdrawal relating to the Company's withdrawal from GAPS (the **GAPS Withdrawal Deed**) that it will comply with the terms of the European Commission's decision.

It is possible that a third party could challenge the decision of the College of Commissioners to approve the restructuring plan in the European Courts. The Group does not believe that any such challenge would be likely to succeed, but if it were to succeed the Commission would need to reconsider its decision, which could result in more extensive remedies being applied including the disposal of a significantly larger proportion of the Group's assets and/or a significantly more stringent divestment timetable or more onerous behavioural restrictions than those contemplated in the approved restructuring plan.

The Group will also be subject to a variety of risks as a result of implementing the restructuring plan. There is no assurance that the price that the Group receives for any assets sold pursuant to the restructuring plan will be at a level the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell such assets in order to implement a state aid restructuring plan or if such sale were not subject to the restrictions contained in the terms thereof. In particular, should the Group fail to complete the disposal of the retail banking business that the Group is required to divest within four years, a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). In implementing the plan, the Group will lose existing customers, deposits and other assets (both directly

through the sale and potentially through damage to the rest of the Group's business arising from implementing the restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Such implementation may also result in disruption to the retained business, impacting on customers and separation costs which could potentially be substantial.

The effect of implementing the approved restructuring plan may be the emergence of one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's competitors in that market. There can be no assurance that the Group will be able to continue to compete as effectively (whether against existing or new or strengthened competitors) and maintain or improve its revenues and margins in the resulting competitive environment, which could adversely affect the Group's results of operations and financial condition and its business generally. If any or all of the risks described in this paragraph, or any other currently unforeseen risks, materialise, there could be a negative impact, which could be material, on the Group's business, operations and competitive position.

Should the Group require any further state aid that was not covered in the European Commission's approval decision of 18 November 2009, this may require the Group to commit to further restructuring measures. Any such measures could be materially adverse to the interests of the Group.

- 1.3 *The Company has agreed to certain undertakings with HM Treasury in relation to the operation of its business in connection with the Company's placing and open offers in November 2008 and May 2009, in connection with the Group's participation in the Credit Guarantee Scheme and as part of its formerly proposed participation in GAPS. The implications of some of these undertakings remain unclear and they could have a material adverse effect on the Group's results of operations, financial condition and prospects. The Group also agreed to certain other commitments in the GAPS Withdrawal Deed.*

In connection with HM Treasury's participation in the placing and open offers in November 2008 and May 2009, the Group's participation in the Credit Guarantee Scheme and its possible participation in GAPS, the Company provided certain undertakings aimed at ensuring that the acquisition by HM Treasury of the Company's shares and the participation of the Group in the UK Government funding scheme as part of its support for the banking industry is consistent with the European state aid clearance. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is the Group's understanding that the undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings include (i) supporting UK Government policy in relation to mortgage lending and lending to businesses through to the end of February 2011, (ii) regulating the remuneration of management and other employees and (iii) regulating the rate of growth of the Group's balance sheet. There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Group.

On 6 March 2009, in connection with the Group's then proposed participation in GAPS, the Company entered into a commitment to increase lending by £14 billion in the 12 months commencing 1 March 2009 to support UK businesses (£11 billion) and homeowners (£3 billion). As part of withdrawing from GAPS, the Group has agreed in the GAPS Withdrawal Deed to reaffirm its overall lending commitments and to maintain in the 12 months commencing 1 March 2010 similar levels of lending as in the 12 months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with the UK Government to reflect circumstances at the start of the 12 month period commencing 1 March 2010.

On 23 March 2010, the Company entered into a commitment whereby it agreed to provide gross new lending to support UK businesses amounting to £44 billion and to support homeowners amounting to £23.1 billion, in respect of the year commencing 1 March 2010, in line with these requirements. The additional lending in 2009 and 2010 is subject to the Group's prevailing commercial terms and conditions (including appropriate risk-adjusted pricing and satisfaction of risk acceptance criteria) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria. The business lending commitment in 2010 is in addition subject to the availability of sufficient demand from customers who meet the above criteria and through the best endeavours of the Company, the availability of the capital, liquidity and funding position on acceptable terms necessary to support the level of lending that the Company has committed to during the 2010 commitment period.

This commitment could, however, limit the operational flexibility of the Group.

1.4 *Future legislative and regulatory changes could force the Group to comply with certain operational restrictions, take steps to raise further capital, or divest assets.*

In July 2009, the UK Government issued a White Paper (the **White Paper**) which builds on and responds to the previously published Turner Review (March 2009) and Bank of England Financial Stability Report (June 2009), both of which contained proposals for reform of the structure and regulation of the UK banking system.

Proposals in the White Paper included: enhanced regulatory powers for the FSA; introducing pre-funding for the UK's deposit guarantee scheme by 2012; requiring banks to develop and maintain detailed plans for winding down (or resolution); and more stringent capital and liquidity requirements for systemically significant firms. The Government's stated aim in linking capital requirements to the size and complexity of systemically significant firms, is that, "The capital requirements in place for systemically significant institutions would need to be sufficient to change incentives of banks to over-indulge in risky activities throughout the economic cycle. This should encourage them to reduce or at least better understand the riskier activities they undertake (for example, proprietary trading) and reduce the moral hazard problem by removing the incentive for firms to become systemically significant".

A second Turner Review discussion paper (October 2009) developed issues highlighted for further discussion in the March review, specifically how to offset the moral hazard created by the existence of systemically important banks and the cumulative impact of changes to the capital and liquidity schemes. Key proposals include: using contingent capital which converts to equity when required; reducing the interconnectedness of large cross-border banks; restricting retail banks from engaging in proprietary trading activities; and emphasising the need to prioritise capital conservation and enhancement above employee bonus payments.

In November 2009 the draft Financial Services Bill was presented to Parliament and in April 2010 the Financial Services Act 2010 (the **FS Act**) was passed. The FS Act consolidated some of the proposals presented in the White Paper, in addition to enhancing the FSA's disciplinary and enforcement powers. Specifically, the FS Act provides the FSA with a new regulatory objective to contribute to UK financial stability, and new powers in respect of (inter alia) altering firms' regulatory permissions, short selling, consumer redress schemes, recovery and resolution plans for authorised firms, disciplinary and enforcement proceedings (against firms and individuals) and the FSA's remuneration rules. The FSA's implementation of these changes, together with further proposals set out in the White Paper, Turner Reviews and elsewhere, if implemented, could have a significant impact on the operations, structure and costs of the Group.

There is a risk that the further regulation or legislation that may be developed over time to implement these or new proposals could force the Group to divest core assets, withdraw from or not engage in some activities, and/or increase its capital. Such regulations or legislation, taken with the more regular and detailed reporting obligations which are expected to accompany regulatory reform, the development and maintenance of a wind down plan, and the move to pre-funding of the deposit protection scheme in the UK, would result in additional costs for the Group, and such costs could be material.

Such measures could have a material adverse effect on the Group's results of operations, financial condition and prospects.

On 5 October 2009, the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices. Procedures to comply with the FSA's liquidity proposals are already incorporated within the Group's liquidity funding plans. These will result in more stringent requirements, which may lead to additional costs for the Group. See Risk Factor 1.14 for a fuller discussion of liquidity risks affecting the Group.

1.5 *The Group may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, the Acquisition. As a consequence, the Group's results of operations, financial condition and prospects may suffer.*

The continued integration of the HBOS Group into the Group is complex, expensive and presents a number of challenges for the management of both the heritage Lloyds TSB Group, the HBOS Group and their respective staff and potentially their respective customers. The Group believes that it will

achieve its reported anticipated cost synergies as well as other operating efficiencies and business growth opportunities, revenue benefits and other benefits from the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies were calculated by the Group on the basis of the existing and projected cost and operating structures of the Group and its estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

The Group may also face a number of other risks with respect to the Acquisition including retaining key employees; redeploying resources in different areas of operations to improve efficiency; unifying financial reporting and internal control procedures, minimising the diversion of management attention from ongoing business concerns, overcoming integration challenges (particularly as the Company's management may be unfamiliar with some aspects of the HBOS Group's business and operations) and addressing possible differences between the Issuer's business culture, risk management, compliance systems and processes, controls, procedures, systems, accounting practices and implementation of accounting standards in respect of the HBOS Group.

Under any of these circumstances, the business growth opportunities, revenue benefits, cost synergies and other benefits anticipated by the Group to result from the Acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that the Group incurs higher integration costs or achieves lower revenue benefits or fewer cost savings than expected, its operating results, financial condition and prospects may suffer.

- 1.6 *The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the UK and other markets in which it operates. Adverse developments, such as the severe dislocation in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Group's earnings and profits and could continue to cause its earnings and profitability to decline. In addition, any credit rating downgrades of sovereigns, particularly the United Kingdom, Spain and Republic of Ireland (or a perception that downgrades may occur) may severely destabilise the markets and could have a material adverse effect on the Group's operating results, financial condition and prospects.*

The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom, in which the Group's earnings are predominantly generated. Over approximately the past two years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world, that began in August 2007 but has substantially worsened since September 2008, triggered widespread problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK Government and other governments to inject liquidity into the financial system and to require (and participate in) recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector has continued albeit with some easing in the second half of 2009. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. The global economy has been in a severe recession, possibly the worst since World War II, although indications are that the UK has now emerged from its 18-month recession. The widespread and severe deterioration in the UK and virtually all other economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, commodity markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, has already and could continue to reduce the level of demand for, and supply of, the Group's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and materially and adversely impact its operating results,



financial condition and prospects. While recent economic figures show a number of countries exiting recession, forecasts are that the recovery will be at a modest pace and is likely to be protracted. Any further significant deterioration in the UK and other economies in which the Group operates could have a material adverse impact on the future results of operations of the Group. Moreover, any return to economic growth may be modest and is likely to be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and UK economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

Additionally, the profitability of the Group's businesses could be affected by increased insurance and other claims arising from market factors such as increased unemployment which may continue even following a return to economic growth in the markets in which the Group operates. Significantly higher unemployment in the UK and elsewhere, reduced corporate profitability, reduced personal non-salary income levels, increased corporate insolvency rates, increased personal insolvency rates, increased tenant defaults and/or increased interest rates may reduce borrowers' ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Group's loans. This, in turn, would cause increased impairments in the event of default. Poor general economic conditions, lack of market liquidity and lack of transparency of asset structures have depressed asset valuations for the Group and could continue to do so if there is a further deterioration in general economic conditions.

The Group has significant exposures, particularly by way of loans, in a number of overseas jurisdictions, notably Ireland, Spain, Australia and the United States, and is therefore subject to a variety of risks relating to the performance of these economies as well.

In addition, the Group's businesses are subject to risks arising from the current UK macroeconomic environment, high and increasing levels of UK government debt and uncertainty around the outcome of the UK general election (including the possibility of a minority or coalition administration which may be unable to take decisive fiscal and other measures to reduce government debt levels resulting in heightened market uncertainty). Further, any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and have a material adverse effect on the Group's operating results, financial condition and prospects. This might also include impact on the Group's own credit ratings, borrowing costs and ability to fund itself.

A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double-dip" recession.

These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Italy, the Republic of Ireland, Greece, Portugal, and Spain in particular. Further instability in these countries or others within the Eurozone might lead to contagion, which may have a material adverse effect on the Group's operating results, financial condition and prospects.

The exact nature of the risks faced by the Group is difficult to predict and guard against in view of (i) the severity of the global financial crisis, (ii) difficulties in predicting whether the recovery will be sustained and at what rate, and (iii) the fact that many of the related risks to the business are totally, or in part, outside the control of the Group.

1.7 *The Group's businesses are inherently subject to the risk of market fluctuations, which could materially adversely affect its operating results, financial condition and prospects.*

The Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that its customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

Market movements have had and will have an impact on the Group in a number of key areas. For example, adverse market movements have had and would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Group. Banking and trading activities that are undertaken by the Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending margins over official rates (to the extent banks have been willing to lend at all), which has exacerbated these risks.

The margins over official rates have recently reduced to historically more normal levels but volatility and increases in margins may return. Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

The insurance businesses of the Group face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon the product and associated contract; for example, the annual management charges received in respect of investment and insurance contracts fluctuate, as do the values of the contracts, in line with the markets. Some of these risks are borne directly by the customer and some are borne by the insurance businesses. Some insurance contracts involve guarantees and options that have increased in value in the current adverse investment markets and may continue to do so. There is a risk that the insurance businesses will bear some of the cost of such guarantees and options. The insurance businesses also have capital directly invested in the markets that are exposed to market risk. The performance of the investment markets will thus have a direct impact upon the embedded value of insurance and investment contracts and the Group's operating results, financial condition and prospects. Adverse market conditions affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

Changes in foreign exchange rates affect the value of assets and liabilities denominated in foreign currencies and such changes and the degree of volatility with respect thereto may affect earnings reported by the Group. In the Group's international businesses, earnings and net assets are denominated in local currency, which will fluctuate with exchange rates in pounds sterling terms. It is difficult to predict with any accuracy changes in economic or market conditions, and such changes could have a material adverse effect on the Group's operating results, financial condition and prospects.

- 1.8 *The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.*

The markets for UK financial services, and the other markets within which the Group operates, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. Moreover, UK Government and/or European intervention in the banking sector may impact the competitive position of the Group relative to its international competitors which may be subject to different forms of government intervention, thus potentially putting the Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Group's financial performance and its ability to capture additional market share depends significantly upon the competitive environment and management's response to it.

The Group's financial performance may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers. Adverse persistency in the Group's insurance business is a risk to current and future earnings.

A key part of the Group's strategy involves building strong customer relationships in order to win a bigger share of its customers' financial services spend. If the Group is not successful in retaining and strengthening customer relationships it will not be able to deliver on this strategy, and may lose market share, incur losses on some or all of its activities or fail to attract new and retain existing deposits, which could have a material adverse effect on its business, financial condition and results of operations.

- 1.9 *Market conditions have resulted, and are expected to result in the future, in material changes to the estimated fair values of financial assets of the Group. Negative fair value adjustments have had, and may continue to have in the future, a further material adverse effect on the Group's operating results, financial condition and prospects.*

Financial markets have been subject to significant stress conditions resulting in steep falls in perceived or actual financial asset values, particularly due to the severe dislocation in the global financial markets.

The Group has material exposures to securities and other investments, including, but not limited to, asset-backed securities, structured investments and private equity investments, that are recorded at fair value and are therefore exposed to further negative fair value adjustments, particularly in view of market dislocation and the fragility of the economic recovery. Although the Board of Directors of the Company (the **Board**) believes that overall impairments for the Group have peaked, asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the

fair values of the Group's financial assets and these may also translate into increased impairments. In addition, the value ultimately realised by the Group for its securities and other investments may be lower than the current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

The Group has made asset redesignations as permitted by recent amendments to IAS 39 ("Financial Instruments: Recognition and Measurement"). The effect of such redesignations has been, and would be, that any effect on the income statement of movements in the fair value of such redesignated assets that have occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or may occur in the future, may not be recognised until such time as the assets become impaired or are disposed of.

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability. In such circumstances, the Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty resulting from the current and ongoing crisis in the global financial markets, and any consequential impairments or write-downs could have a material adverse effect on the Group's operating results, financial condition and prospects.

1.10 *The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and are expected to continue to affect the recoverability and value of assets on the Group's balance sheet.*

As one of the UK's largest lenders with substantial business and operations overseas, the Group has exposures to many different products and counterparties, and the credit quality of its exposures can have a significant impact on its earnings. The Group makes both secured and unsecured loans to retail and corporate customers and the Group's businesses are subject to inherent risks regarding the credit quality of, the recovery of loans to and amounts due from, customers and market counterparties. Adverse changes in the credit quality of the Group's UK and/or international borrowers and counterparties, or in their behaviour, would be expected to reduce the value of the Group's assets, and materially increase the Group's write-downs and allowances for impairment losses.

The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to its results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how these economic conditions might impair the ability of its borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to identify the proper factors or that it will fail to estimate accurately the impact of factors that it identifies.

As a result of the Acquisition, the composition of the Group's wholesale portfolio has materially changed, with much larger sectoral concentrations (for example in real estate, leveraged lending, asset-backed securities and floating rate notes issued by financial institutions) and higher levels of credit risk including substantially greater exposures, particularly in Ireland, Australia and the US.

At the time of the Acquisition, the average rating of the HBOS Group's corporate lending portfolio was significantly weaker than that of the heritage Lloyds TSB Group, and this continues to be the case. HBOS had substantial lending to mid-sized and private companies, a greater exposure than the heritage Lloyds TSB Group to leveraged finance and subordinated loans, as well as significant exposure to the commercial real estate sector, including hotels and residential property developers, which has been particularly adversely affected by the recessionary environment. These concentrations in cyclically weak sectors, as well as exposure at various levels of the capital structure, mean that the heritage HBOS wholesale business is potentially exposed to high and volatile levels of impairments.

It should be noted that the heritage HBOS portfolio in Ireland is heavily exposed to the commercial and residential real estate sectors, which have been negatively impacted by the current economic recession, the portfolio in Australia has material exposure to real estate and leveraged lending, and in the United States there are notable exposures to sectors such as gaming and real estate which are cyclically weak and have been negatively impacted by the economic recession. As in the UK, the heritage HBOS portfolio overseas is also particularly exposed to a small number of long-term customer relationships and these single name concentrations place the Group at risk of loss should default occur.

UK house prices have declined significantly, albeit modest increases have been evident in recent months, reflecting a correction of severely inflated asset values, triggered by the economic downturn and lower availability of credit. Economic or other factors may lead to further contraction in the mortgage market and further decreases in housing prices. Many borrowers in the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of mortgages, together with the potential for higher mortgage rates, could lead to higher default and delinquency rates. The Group provides mortgages to buy-to-let investors where increasing unemployment, an excess supply of rental property or falls in rental demand could also impact the borrowers' income and ability to service the loans. If interest rates rise, or the current economic recovery falters, causing further decreases in house prices and/or increases in unemployment, the Group's retail portfolios could generate substantial impairment losses which could materially affect its operations, financial condition and prospects. Furthermore, the Group has direct exposure to self-certification and sub-prime mortgages in the UK and is therefore subject to the risks inherent in this type of mortgage lending in the event of decreases in house prices, increases in unemployment or a reduction in borrowers' incomes and the risk that the Group has incorrectly assessed the credit quality or willingness to pay of borrowers as a result of incomplete or inaccurate disclosure by those borrowers. At present, mortgage default and delinquency rates are cushioned by unprecedented low rates of interest which have improved customer affordability, and this has created the risk of increased defaults and delinquency rates as the economy recovers from the recession and interest rates start to rise.

Although the Board believes that overall impairments for the Group have peaked, there is a risk of further increases in the impairment charges for some businesses and there remain ongoing concerns with regard to the outlook for the Irish economy in particular. Moreover, there remains a risk that further material impairments in the Group's portfolios could come to light, particularly in the event of any further significant deterioration in the economic environment although the performance of some of the Group's exposures might deteriorate further even in the absence of further economic decline, particularly in Ireland. Any such unforeseen material further impairments could have a material and adverse effect on the Group's operations, financial condition and prospects.

1.11 *Concentration of credit and market risk could increase the potential for significant losses.*

The Group has exposure to concentration risk where its business activities focus particularly on a similar type of customer or product or geographic location including the UK market, which could be adversely affected by changes in economic conditions. Additionally, the heritage HBOS strategy of supporting UK entrepreneurs together with its joint venture model and its focus on commercial property lending has given rise to significant single name and risk capital exposure. Given the Group's high concentrations of property exposure, further decreases in residential or commercial property values and/or further tenant defaults are likely to lead to higher impairment losses, which could materially affect its operations, financial condition and prospects.

The Group's efforts to diversify or hedge its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. In addition, the disruption in the liquidity or transparency of the financial markets may result in the Group's inability to sell or syndicate securities, loans or other instruments or positions held, thereby leading to increased concentrations of such positions. These concentrations could expose the Group to losses if the mark-to-market value of the securities, loans or other instruments or positions declines causing the Group to take write-downs. Moreover, the inability to reduce the Group's positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on the Group's balance sheet, thereby increasing its capital requirements and funding costs, all of which could adversely affect the Group's operating results, financial condition and prospects. The Acquisition has in some cases increased the Group's exposure to concentration risk, since the combination of two portfolios inevitably gives rise to some greater concentrations than would otherwise have been permitted. Market conditions at present mean that it is difficult to achieve sales to ameliorate these concentrations.

1.12 *If the perceived creditworthiness of market counterparties does not improve or continues to deteriorate, the Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Group's results of operations, financial condition and prospects.*

The Group has credit exposure to market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter

derivative contracts, mainly credit default swaps (CDSs) which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought. Market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived creditworthiness has deteriorated significantly since 2007. They may continue to be substantially adversely impacted by such or other events. Their creditworthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Group seeks to limit and manage direct exposure to market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already recorded. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group.

- 1.13 *The Group's borrowing costs and access to the capital markets depend significantly on the Company's credit ratings and market perception of the Company's financial resilience and those of the Issuer, HBOS and BOS and any deterioration could materially adversely affect the Group's results of operations, financial condition and prospects.*

As at 7 June 2010, the long-term credit ratings for the Company were A1 from Moody's Investors Service Limited, A from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and A (high) from DBRS. As at 7 June 2010, the long-term credit ratings for the Issuer were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 7 June 2010, the long-term credit ratings for HBOS were A1 from Moody's Investors Service Limited, A from Standard & Poor's Rating Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS. As at 7 June 2010, the long-term credit ratings for BOS were Aa3 from Moody's Investors Service Limited, A+ (A plus) from Standard & Poor's Ratings Services, AA- (AA minus) from Fitch Ratings Ltd and AA (low) from DBRS.

As at 7 June 2010, the Company also had short-term ratings of A-1 from Standard & Poor's Ratings Services and F1+ from Fitch Ratings Ltd. The Issuer had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. HBOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS. BOS had short-term ratings of P-1 from Moody's Investors Service Limited, A-1 from Standard & Poor's Ratings Services, F1+ from Fitch Ratings Ltd and R-1 (middle) from DBRS.

Reduction in the credit ratings of the Group or deterioration in the capital market's perception of the Group's financial resilience, could significantly increase its borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, any further reduction in credit ratings or deterioration of market perception could materially adversely affect the Group's access to liquidity and competitive position, increase its funding costs and, hence, have a material adverse effect on the Group's business, financial position and results of operations. These material adverse effects could also follow from a reduction in the credit ratings of the Issuer, HBOS or BOS. See *Risk Factors – Risk Factors relating to the Covered Bonds – Ratings of the Covered Bonds*.

- 1.14 *The Group's businesses are subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale money markets continues to be limited or becomes more limited. The Group continues to be reliant on various government liquidity schemes and will face refinancing risk as transactions under these schemes mature.*

The Group's businesses are subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Group's profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to liquidity (including government and central bank funding and liquidity support) could affect the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Group may not be in a

position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Group or to all banks which could increase the Group's cost of funding and limit its access to liquidity. In addition, the funding structure employed by the Group may prove to be inefficient giving rise to a level of funding cost that is not sustainable in the long run. The funding needs of the Group will increase to the extent that customers, including conduit vehicles of the Group, draw down under existing credit arrangements with the Group and such increases in funding needs may be material. In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets, central bank liquidity facilities (for example, Bank of England, European Central Bank and Federal Reserve Bank of New York) and the UK Government Credit Guarantee Scheme. The ability of the Group to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could affect the Group's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the Group's lending activities will depend, in part, on the availability of retail funding on appropriate terms, for which there is increasing competition. See Risk Factor 1.8 for a discussion of the competitive nature of the banking industry and competitive pressures that could have a negative impact on the availability of customer deposits and retail funding. This reliance has increased in the recent past given the difficulties in accessing wholesale funding. Increases in the cost of such funding will impact on the Group's margins and affect profit, and a lack of availability of such retail deposit funding could impact on the Group's future growth.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Group's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Any loss in consumer confidence in the banking businesses of the Group could significantly increase the amount of retail deposit withdrawals in a short space of time and this may have an adverse effect on the Group's profitability. Should the Group experience an unusually high and unforeseen level of withdrawals, in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Group's solvency.

In addition, if the current difficulties in the wholesale funding markets are not resolved or central bank provision of liquidity to the financial markets is abruptly curtailed, it is likely that wholesale funding will prove even more difficult to obtain. Such liquidity constraints could affect the Group's profitability. Whilst the Group expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on the Group's access to these traditional sources of liquidity could have a material adverse effect on the Group's business, financial position and results of operations, and in such extreme circumstances the Group may not be in a position to continue to operate without additional funding support, which it may be unable to access and which, in turn, could have a material impact on the Group's solvency.

Whilst various governments, including the UK Government, and central banks have taken substantial measures to ease the crisis in liquidity, (for example, the UK Credit Guarantee Scheme), there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks, including the Group in the longer term. In addition, the availability and the terms on which any such measures will continue to be made available to the Group in the longer term are uncertain.

The Group does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Group. The Group has substantially relied on the Bank of England liquidity facilities

as well as the UK Government funding scheme. The Group does not expect that there will be any extension or renewal of the Special Liquidity Scheme (which was closed for new transactions in January 2009) or the Credit Guarantee Scheme (which was closed for new issuance in February 2010). Accordingly, the Group will face a refinancing concentration during 2011 and 2012 associated with the maturity of the Special Liquidity Scheme transactions and Credit Guarantee Scheme issuance undertaken by the Group prior to the closure of those schemes. While the Group expects that the impact of this refinancing concentration can be mitigated by a combination of alternative funding over the course of the next two years and reductions in the Group's net wholesale funding requirement over the same period, there can be no assurance that these mitigation efforts will be successful. Under the GAPS Withdrawal Deed, the Company has agreed to develop with the FSA a medium term funding plan aimed at reducing dependence on short term funding, to be regularly reviewed by the FSA and the Bank of England. If the Group's funding plan is not successful in mitigating the impact of this refinancing concentration in 2011, the Group could at that time face serious liquidity constraints, which would have a material adverse impact on its solvency.

At the time of the Acquisition, the HBOS Group had a funding profile that involved the need to refinance a higher volume of maturing wholesale funding than that of heritage Lloyds TSB. As this continues to be the case, the funding profile of the Group involves substantially higher refinancing risk than the funding profile of heritage Lloyds TSB on a stand-alone basis. The Group will also continue to be dependent on its credit ratings in order to be able to attract wholesale investors into its debt issuance programmes; should the ratings fall, the cost of refinancing will increase and it may not be possible to refinance borrowings as they mature on favourable terms. Such increased refinancing risk, in isolation or in concert with the related liquidity risks noted above, could have a material adverse effect on the Group's profitability and, in the longer term under extreme and unforeseen circumstances, its ability to meet its financial obligations as they fall due.

- 1.15 *The Group has been and could continue to be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties, and which could materially adversely affect the Group's results of operations, financial condition and prospects.*

Against the backdrop of the lack of liquidity and the recent high cost of funds relative to official rates in the interbank lending market, which was unprecedented in recent history, the Group is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial services institutions within and outside the United Kingdom. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Group interacts on a daily basis, all of which could have an adverse effect on the Group's ability to raise new funding.

The Group routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration. The Group is exposed to counterparty risk as a result of recent financial institution failures and nationalisations and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material and adverse effect on the Group's results of operations, financial condition and prospects.

- 1.16 *The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.*

The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. Currently, the Group meets and exceeds its regulatory capital requirements. The Group expects to continue to meet both its regulatory capital requirements and the additional capital requirements imposed by the FSA Stress Test. However, the FSA could apply increasingly stringent stress case scenarios in determining the required capital ratios for the Group and other banks, increase the minimum regulatory requirements imposed on the Group, introduce liquidity restrictions, introduce new ratios and/or change the manner in which it applies existing regulatory requirements to recapitalised banks including those within the Group. Specifically, in relation to the consultation papers issued by the Basel Committee on Banking Supervision ("Strengthening the resilience of the banking

sector" and "International framework for liquidity risk measurement, standards and monitoring"), the Group is participating in the industry – wide consultation and calibration exercises taking place through 2010. In order to meet additional regulatory capital requirements, the Group may be forced to raise further capital.

Further, within the Group, the heritage Lloyds TSB Group and HBOS Group businesses may have approaches to the Basel II modelling of regulatory capital requirements which may differ according to the assumptions used. As the two model methodologies are aligned over time this may result in changes to the Group's combined reported level of regulatory capital.

The Group's ability to maintain its targeted and regulatory capital ratios in the longer term could be affected by a number of factors, including net synergies and implementation costs following the Acquisition, and its level of risk-weighted assets, post-tax profit and fair value adjustments. In addition to the fair value adjustments, the Group's core tier 1 capital ratio will be directly impacted by any shortfall in forecasted after-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the insurance or lending businesses). Furthermore, under Basel II, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen.

If the regulatory capital requirements, liquidity restrictions or ratios applied to the Group are increased in the future, any failure of the Group to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Group's operating results, financial condition and prospects. A shortage of available capital would also affect the Group's ability to pay dividends, continue organic growth or pursue acquisitions or other strategic opportunities. In particular, changes in regulatory capital requirements imposed by the Group's regulators could cause the Group to defer the re-introduction of ordinary dividends or change its dividend policy.

The Group's life assurance and general insurance businesses in the UK are subject to capital requirements prescribed by the FSA, and the Group's life and general insurance companies outside the UK are subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad 'framework' principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. Solvency II is still in development, but there is a risk that the final regime could increase the amount of regulatory capital the Group's life assurance and general insurance businesses are required to hold, thus decreasing the amount of capital available for other uses.

- 1.17 *The Group's insurance businesses and employee pension schemes are subject to risks relating to insurance claim rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour.*

The life and pensions insurance businesses of the Group and its employee pension schemes are exposed to short-term and longer-term variability arising from uncertain longevity and ill-health rates. Adverse developments in any of these factors will increase the size of the Group's insurance and employee pension scheme liabilities and may adversely affect the Group's financial condition and results of operations.

Customer behaviour in the life and pensions insurance business may result in increased propensity to cease contributing to or cancel insurance policies at a rate in excess of business assumptions. The consequent reduction in policy persistency and fee income has an adverse impact upon the profitability of the life and pensions business of the Group. The behaviour of employee pension scheme members affects the levels of benefits payable from the schemes. For example, the rate at which members cease employment affects the aggregate amount of benefits payable by the schemes. This rate may differ from applicable business assumptions. Adverse variances may increase the size of the Group's aggregate pension liabilities and may adversely affect the Group's financial condition and results of operations.

The general insurance businesses of the Group are exposed to the risk of uncertain insurance claim rates. For example, extreme weather conditions can result in high property damage claims, higher levels of theft can increase claims on property, contents and motor vehicle insurance and changes to



unemployment levels can increase claims on loan protection insurance. These claims rates may differ from business assumptions and negative developments may adversely affect the Group's financial condition and results of operations.

UK banks recognise an insurance asset in their balance sheets representing the value of in-force business (VIF) in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new business, but subsequently a lower contribution from existing business, when compared to the recognition of profits on investment contracts under IAS 39 (Financial Instruments: Recognition and Measurement). Differences between actual and expected experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best -estimate assumptions made by management, including mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Group's financial condition and results of operations.

Also, as further described in Risk Factor 1.7, the Group's insurance assets are subject to the risk of market fluctuations.

- 1.18 *The Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on the Group's operating results, financial condition and prospects.*

The Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which the Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Group and could materially adversely affect the Group's business.

Areas where changes could have an adverse impact include, but are not limited to:

- (i) the monetary, interest rate and other policies of central banks and regulatory authorities;
- (ii) general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (iii) changes to prudential regulatory rules relating to capital adequacy and liquidity frameworks;
- (iv) external bodies applying or interpreting standards or laws differently to those applied by the Group historically;
- (v) changes in competition and pricing environments;
- (vi) further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;
- (vii) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- (viii) other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

In addition, under the Banking Act, substantial powers over the Group's business, including the ability to take control of the Group's business, have been granted to HM Treasury, the Bank of England and the FSA. In the longer term, if the position of a relevant entity in the Group were to decline so dramatically that it was considered to be failing, or likely to fail, to meet threshold authorisation conditions in the FSMA, it could become subject to the exercise of powers by HM Treasury or the Bank of England under the special resolution regime (the **SRR**). There can be no assurance that, if economic conditions deteriorate significantly in the future and/or if the financial position of the Group deteriorates significantly in the future, further UK Government or other intervention will not take place, including pursuant to the Banking Act. For a discussion of the Banking Act see *Lloyds Banking*

*Group — Regulation — Other Relevant Legislation and Regulation — UK Government*) and Risk Factor 1.29 herein.

In the United Kingdom and elsewhere, there is also increased political and regulatory scrutiny of the banking industry and, in particular, retail banking. The UK Government, the FSA and other regulators in the United Kingdom or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Group.

Increased regulatory intervention may lead to requests from regulators to carry out wide ranging reviews of past sales and/or sales practices. In the United Kingdom, the Competition Commission, the FSA and the Office of Fair Trading (**OFT**) have recently carried out, or are currently conducting, several inquiries. Regulatory reviews and investigations may result in enforcement actions and public sanction, which could expose the Group to an increased risk of litigation in addition to financial penalties and/or the deployment of such regulatory tools as the relevant regulator deems appropriate in the circumstances.

In addition, the Group faces increased political and regulatory scrutiny as a result of the Group's perceived size and systemic importance following the Acquisition. Such scrutiny may focus on, or include review of, the historical operations of the HBOS Group as well as the characteristics of the enlarged Group. The outcome of any regulatory review, proceeding or complaint against the Group or the heritage HBOS Group is inherently uncertain and difficult to predict. In clearing the Acquisition without a reference to the UK Competition Commission, the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. The OFT has also reiterated that it will consider whether to refer any banking markets to the Competition Commission if it identifies any prevention, restriction or distortion of competition.

In April 2009 the OFT indicated its intention to focus its efforts in the financial services markets on the banking sector, including credit, leasing and debt recovery activities. Amongst other plans, it had announced its intention to launch a review of the unsecured consumer credit sector in 2009.

The FSA published the Turner Review ("A Regulatory Response to the Global Banking Crisis") on 18 March 2009. The Turner Review assesses the various factors which contributed to the severe financial problems suffered by banks at the end of 2008, and then considers a wide range of proposals to counter these factors and reform global financial regulation. These proposals include significantly increasing banks' minimum regulatory capital requirements, regulating banks' liquidity requirements, requiring banks to establish capital buffers, a maximum growth leverage ratio to prevent banks' excessive expansion, authorities' power to obtain information on significant unregulated financial institutions, central counterparty clearing of credit derivatives, and a major shift in the supervisory approach of the FSA, with an increased focus on high impact, complex and systemically important firms, business models and approved persons' technical skills. New arrangements for co-ordinated cross-border supervision of international and EU banking groups are also proposed. The FSA has also published a discussion paper intended to elicit market participants' comments on many of the proposals contained in the Turner Review. The impact of the proposals on banks and their business models is likely, in the view of the Group, to be very significant. The fundamental changes to capital and liquidity requirements could have a substantial impact on the shape of banks' business models. In the Group's view, banks can also expect a shift from the previous "light touch" principles-based regime to an intensive, and interventionist, rules-based regime. The cost of compliance with these proposals may well lead to reduced profitability, as well as to a lower return on equity.

The FSA published a Feedback Statement on the Turner Review and associated discussion paper on 30 September 2009. This continued the debate regarding how systemically important firms are dealt with, suggesting they should be required to produce recovery and resolution plans ("living wills") setting out how operations would be resolved in the event that the bank fails. Given the Group's systemic importance this is highly significant. If a bank's living will is deemed insufficient by the FSA and contains serious obstacles to resolution it could result in restructuring of the relevant bank's group.

A second Turner Review discussion paper (October 2009) developed issues highlighted for further discussion in the March review, specifically how to offset the moral hazard created by the existence of systemically important banks and the cumulative impact of changes to the capital and liquidity schemes. Key proposals include: using contingent capital which converts to equity when required; reducing the interconnectedness of large cross-border banks; restricting retail banks from engaging in proprietary trading activities; and emphasising the need to prioritise capital conservation and enhancement above employee bonus payments.

Amendments to a number of EU directives are being considered, including the Distance Marketing Directive, Markets in Financial Instruments Directive; Capital Requirements Directive, E-Money Directive, Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Financial Groups Directive. Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Group's costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these consequences could have a material adverse effect on the Group's operating results, financial condition and prospects.

- 1.19 *In the United Kingdom, firms within the Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.*

In the United Kingdom, the Financial Services Compensation Scheme (FSCS) was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including firms within the Group. The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions involving the FSCS are expected to result in a significant increase in the levies made by the FSCS on the industry. The Group continues to provide for its share of the management expenses levy and the estimated interest cost on the FSCS borrowings. Going forward, further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Group may have a material adverse effect on its results of operations and financial condition.

The FSA requires that UK deposit-taking institutions develop systems by 31 December 2010 to produce a Single Customer View (SCV), providing an aggregated view of each customer's eligibility for compensation in the event of a failure. In the event that the Group fails to deliver such a project to the regulator's standards or timetables, there is the risk of public sanction, financial penalty and/or the deployment by the FSA of such other regulatory tools as it deems appropriate to the circumstances. Other potential changes to the FSCS arrangements with the potential to require the Group to incur additional costs or expose the Group to risks may arise from ongoing discussions at the national and European Union levels around the future design of deposit protection schemes, including but not limited to potentially increasing the level of protection which is accorded to deposits and/or moving to pre-funding of compensation schemes. FSA intends to carry out a consultation exercise in the fourth quarter of 2010 before introducing any further proposals relating to the FSCS.

From 1 January 2010 (subject to the rules of the FSCS):

- eligible deposit claimants remain entitled to receive 100 per cent. compensation for financial loss up to £50,000;
- eligible investment business and mortgage advice and arranging claimants are entitled to receive 100 per cent. compensation for financial loss up to £50,000; and
- eligible insurance claimants are entitled to receive 90 per cent. of the claim (except compulsory insurance for which it is 100 per cent. of the claim).

On 16 March 2009, the European Directive on Deposit Guarantee Schemes (1994/19/EC) was amended by Directive 2009/14/EC (the "Amended Directive"). The Amended Directive required EU Member States, by 30 June 2009, to increase the minimum level of coverage they provide for deposits from €20,000 to €50,000 and to reduce the payout period in the event of bank failure from three months to 20 days. Furthermore, by 31 December 2010, Member States must set coverage for the aggregate deposits of each depositor at €100,000.

The FSA announced further changes to the FSCS on 24 July 2009, which in part seek to implement the fast payout rules set out under the Amended Directive referred to above through a SCV. In addition, the other key changes announced by the FSA to the FSCS include the following:

- changing the payout of compensation to avoid customers who hold loans and deposits with the same institution having any debt deducted from their compensation;

- widening eligibility of the FSCS to include more individuals;
- introducing a requirement that deposit takers must disclose the existence of the FSCS and the level of protection it offers to help familiarise consumers with the services it provides; and
- if an institution operates under a number of trading names, it must tell its customers which of the different trading names are covered by a particular authorisation.

1.20 *The Group is exposed to various forms of legal and regulatory risk, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a material adverse effect on its results or its relations with its customers.*

The Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of the Group's business may be determined by the authorities, the Financial Ombudsman Service (**FOS**) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers; all of which may require additional provisions;
- contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- the Group holds accounts for a number of customers that might be or are subject to interest from various regulators and authorities including the Serious Fraud Office, those in the US and others. The Group is not aware of any current investigation into the Group as a result of any such enquiries but cannot exclude the possibility of the Group's conduct being reviewed as part of any such investigations;
- the intellectual property of the Group (such as trade names) may not be adequately protected; and
- the Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Group faces risk where legal or regulatory proceedings or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States (which may include class action lawsuits), for example, see Note 52 to the 2009 consolidated financial statements contained within the Company's Annual Report and Accounts 2009 (such pages being incorporated by reference into this Prospectus). A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions.

Failure to manage these risks adequately could impact the Group adversely, both financially and reputationally, through an adverse impact on the Group's brands.

1.21 *The Group could fail to attract or retain senior management or other key employees.*

The Group's success depends on the ability and experience of its senior management and other key employees. The loss of the services of certain key employees, particularly to competitors, could have a material adverse effect on the Group's results of operations, financial condition and prospects. In addition, as the Group's businesses develop, both in the UK and in other jurisdictions, future success will depend on the ability to attract and retain highly-skilled and qualified personnel, which cannot be guaranteed, particularly in light of the increased regulatory intervention in financial institutions and management compensation arrangements coming under government prescription. For example, the Group's remuneration arrangements are subject to the FSA's Rule and supporting Code on remuneration (which only apply to certain financial institutions), effective from 1 January 2010 for the 2009 performance year. In addition, in the GAPS Withdrawal Deed, the Group has acknowledged to HM Treasury its commitment to the principle that, from 2010, it should be at the leading edge of implementing the G20 principles, the FSA code and any remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always allow the Group to operate on a level playing field with its competitors. Furthermore, the Group has agreed with HM

Treasury the specific deferral and clawback terms which will apply to any bonuses in respect of the 2009 performance year and these may affect the Group's ability to offer competitive remuneration arrangements.

Therefore, depending on the nature of the remuneration arrangements developed, staff retention and recruitment may become more difficult. The failure to attract or retain a sufficient number of appropriate personnel could significantly impede the Group's financial plans, growth and other objectives and have an adverse effect on its business, financial position and results of operations.

In addition, failure to manage trade union relationships effectively may result in disruption to the business and its operations causing potential financial and reputational loss.

- 1.22 *Weaknesses or failures in the Group's internal processes and procedures and other operational risks could materially adversely affect the Group's results of operations, financial condition and prospects and could result in reputational damage.*

Operational risks, through inadequate or failed internal processes and/or systems (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on their ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in such internal controls and processes could have a negative impact on the Group's results or its ability to report adequately such results during the affected period. Furthermore, damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems or processes could have a significant adverse impact on the Group's businesses. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Company or any relevant company within the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA (as the case may be).

- 1.23 *Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a material adverse impact on the Group's results of operations, financial condition and prospects.*

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse impact on UK and international economic conditions generally, and more specifically on the business and results of the Group in ways that cannot necessarily be predicted.

- 1.24 *The Group's financial statements are based in part on assumptions and estimates which, if wrong, could cause losses in the future.*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Group's results and financial position, based upon materiality and significant judgements and estimates, include impairment of financial assets; valuation of financial instruments; pensions; goodwill; insurance and taxation which are discussed in detail in the Company's 2009 Annual Report under the section entitled "Critical Accounting Estimates and Judgements" as set out on pages 144 to 147 therein (such pages being incorporated by reference into this Prospectus). If the judgement, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material impact on the Group's results of operations and a corresponding impact on its funding requirements and capital ratios.

- 1.25 *The Company is a holding company and as a result, is dependent on dividends from its subsidiaries to meet its obligations including its obligations with respect to its debt securities, and to provide funds for payment of dividends to shareholders.*

Lloyds Banking Group plc is a non-operating holding company and as such the principal sources of its income are from operating subsidiaries who also hold the principal assets of the Group. As a separate

legal entity, the Company relies on remittance of their dividends and other funds in order to be able to pay obligations to shareholders and debt holders as they fall due.

- 1.26 *The Issuer is partly dependent on dividends from its subsidiaries to meet its obligations, including its obligations with respect to its debt securities.*

Lloyds TSB Bank plc is a bank as well as a holding company and as such one of its sources of income is dividends from its operating subsidiaries in order to be able to pay obligations to debt holders as they fall due.

Following the Group Reorganisation, a proportion of Lloyds TSB Bank plc's income will in future be derived from the businesses and assets of the HBOS Group. As a result, Lloyds TSB Bank plc relies in part on remittance of dividends and other funds through the HBOS Group in order to be able to pay obligations to debt holders as they fall due.

- 1.27 *Failure to manage the risks associated with changes in taxation rates or law, or misinterpretation of the law, could materially and adversely affect the Group's results of operations, financial condition and prospects.*

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges, financial loss including penalties, and reputational damage. Failure to manage these risks adequately could impact the Group materially and adversely and could have a material negative impact on the Group's performance.

- 1.28 *Following the Acquisition, any further increase in HM Treasury's shareholding percentage in the Company or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more, could lead to the Group suffering adverse tax consequences.*

Certain companies have material tax losses and reliefs which they anticipate carrying forward to reduce tax payable in the future and restrictions on the ability to utilise these losses and reliefs could affect the post-tax profitability and capital position of the Group. Following the acquisition of HBOS, actions which could possibly cause the loss of these reliefs to occur would include any further increase in HM Treasury's shareholding in Lloyds Banking Group plc, or the aggregation of HM Treasury's interests with that of other shareholders holding 5 per cent. or more. These actions, if coupled with the occurrence of certain specified events in relation to the Group companies (including a major change in the nature or conduct of a trade carried on by such a Group company, or an increase in capital of such a Group company with an investment business) would, in the case of legacy HBOS Group companies, and could, in the case of legacy Lloyds TSB Group companies, cause restrictions on the ability to utilise these losses and reliefs. The Company considers that it will be able to conduct its business, and the business of the Group, in a manner which avoids the occurrence of these specified events. However, the ability to do so cannot be predicted with any certainty at the date of this document.

- 1.29 *Risks relating to the Banking Act 2009*

Under the Banking Act, substantial powers have been granted to HM Treasury, the Bank of England and the UK Financial Services Authority (the **FSA** and, together with HM Treasury and the Bank of England, the **Authorities**) under the Special Resolution Regime. These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (each a **relevant entity**) that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity, or the shares or other securities of the relevant entity, to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency procedures for relevant entities.

Although Lloyds Banking Group currently meets all capital requirements, if the position of a relevant entity within Lloyds Banking Group (including the Issuer) was to decline so dramatically that it was considered to be failing, or likely to fail, to meet threshold authorisation conditions in the FSMA, it could become subject to the exercise of powers by the Authorities under the SRR.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the

stability of the financial systems of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to Authorities under the Banking Act and how the Authorities may choose to exercise them. The following paragraphs set out some of the possible consequences for the Issuer of the exercise of those powers under the SRR.

*The SRR may be triggered prior to insolvency of a relevant entity*

The stabilisation powers may only be exercised if the FSA is satisfied that a relevant entity (such as the Issuer, Seller, Interest Rate Swap Provider, Account Bank, GIC Provider, Servicer, Cash Manager or Covered Bond Swap Provider) (a) is failing, or is likely to fail, to satisfy the threshold conditions set out in Schedule 6 to the FSMA required to retain its FSA authorisation to accept deposits; and (b) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

*Various actions may be taken in relation to any securities issued by the Issuer (including the Covered Bonds) without the consent of the holders thereof*

If the Issuer were made subject to the SRR, HM Treasury may take various actions in relation to any securities issued by the Issuer (including the Covered Bonds) without the consent of the holders thereof, including (among other things):

- (i) transferring securities (including the Covered Bonds) free from any restrictions on transfer and free from any trust, liability or encumbrance;
- (ii) delisting securities (including the Covered Bonds);
- (iii) converting securities (including the Covered Bonds) into another form or class (for example, from debt securities into equity securities); or
- (iv) prescribing that the transfer of securities (including the Covered Bonds) takes place free from any trust.

Accordingly, there can be no assurance that the taking of any such actions would not adversely affect:

- the rights of the Covered Bondholders;
- the price or value of their investment; and
- the ability of the Issuer, Seller, Interest Rate Swap Provider, Account Bank, GIC Provider, Servicer, Cash Manager and/or Covered Bond Swap Provider to satisfy their obligations under the Covered Bonds or the Transaction Documents.

Where the stabilisation powers are exercised, HM Treasury must make statutory provision for a scheme or other arrangements for determining the compensation, if any, due to those affected by an exercise of the powers. However, there can be no assurance that any compensation would be recovered promptly or that it would be equal to any loss actually incurred.

*Contractual arrangements between the Issuer, its group companies and/or the bridge bank or private sector purchaser may be created, modified or cancelled*

If the Issuer were made subject to the SRR and a transfer of all or part of the Issuer's business or shares to another entity were effected, the transfer order or instrument may directly affect the Issuer and/or its group companies (including Lloyds Banking Group plc and the LLP) and commercial counterparties by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively. For example, the transfer order or instrument may (among other things) (i) require the Issuer or its group companies (including the LLP) to support and co-operate with the bridge bank or private sector purchaser, for example by providing services and facilities; (ii) cancel or modify contracts or arrangements between the Issuer or the transferred business and a group company (including Lloyds Banking Group plc and the LLP); or (iii) impose additional obligations on the Issuer or its group companies including Lloyds Banking Group plc or the LLP under new or existing contracts. There can be no assurance that the taking of any such actions would not adversely affect the ability of the Issuer, Seller, Interest Rate Swap Provider,

Account Bank, GIC Provider, Servicer, Cash Manager, Covered Bond Swap Provider, Lloyds Banking Group plc or the LLP to satisfy each of their obligations to the Covered Bondholders, under the Covered Bonds or under the Transaction Documents.

*A partial transfer of the Issuer's business may result in a concentration of risk*

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer may result in a deterioration in the creditworthiness of the Issuer and increase the risk that the Issuer may eventually become subject to administration or insolvency proceedings pursuant to the Banking Act or the Insolvency Act 1986.

Where the stabilisation powers are exercised, HM Treasury must make statutory provision (for example, in accordance with the Banking Act 2009 (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009) for a scheme or other arrangements for determining the compensation, if any, due to those affected by an exercise of the powers. As noted above, however, there can be no assurance that any compensation would be recovered promptly nor that it would be equal to any loss actually incurred.

*If the Issuer is made subject to the SRR, there may be additional consequences under the Covered Bonds and the Transaction Documents*

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such order may (amongst other things) affect the ability of such entity to satisfy its obligations under the Transaction Documents and/or result in (i) (as noted above) the transfer of the Covered Bondholders' entitlements in respect of the Covered Bonds or the conversion of the Covered Bonds from "one form or class to another" (the scope of which is not clear) and/or (ii) modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit a transfer instrument or order to disapply certain widely defined "default event provisions" which might otherwise be triggered by the transfer. These default event provisions could include certain trigger events included in the Transaction Documents in respect of the Issuer, including trigger events in respect of perfection of legal title to the Loans, and the Issuer Events of Default, acceleration and mandatory early redemption. Moreover, other than in the context of certain partial property transfers, modifications may be made to contractual arrangements between the relevant institution and certain group companies (such as the LLP). If an instrument or order were to be made under the Banking Act in respect of the Issuer, such action may affect various other aspects of the transaction, including resulting in modifications to the Transaction Documents. For example, a transfer instrument or order made in respect of the Issuer may disapply certain remedial actions which the Issuer would otherwise be required to take in the event of a transfer or certain related events and, more generally, the ability of such entity to perform its obligations under the Transaction Documents. As a result, the making of an instrument or order in respect of the Issuer may affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee and/or the ability of the Issuer to meet its obligations in respect of the Covered Bonds. While there is provision for compensation under the Banking Act in certain circumstances, as noted above, there can be no assurance that Covered Bondholders would recover compensation promptly and equal to any loss actually incurred.

The Authorities are also empowered by order to amend the law (other than the Banking Act and related statutory instruments) for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect.

**At present, the Authorities have not made an instrument or order under the Banking Act in respect of any of the entities referred to above and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Covered Bondholders will not be adversely affected by any such instrument or order if made.**

## **RISK FACTORS RELATING TO THE LLP, INCLUDING THE ABILITY OF THE LLP TO FULFIL ITS OBLIGATIONS IN RELATION TO THE COVERED BOND GUARANTEE**

### **LLP only obliged to pay Guaranteed Amounts when the same are Due for Payment**

Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may serve an Issuer Acceleration Notice, but is not obliged to, unless and until requested or directed by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered



Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders in accordance with Condition 9.1(a) (*Issuer Events of Default*). Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason.

Payments by the LLP under the Covered Bond Guarantee will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of an LLP Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or interest on interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7.

Subject to the applicable grace period in the Terms and Conditions, if (after service of a Notice to Pay) the LLP fails to make a payment when Due for Payment under the Covered Bond Guarantee or any other LLP Event of Default occurs, then the Bond Trustee may accelerate the obligations of the LLP under the Covered Bond Guarantee by service of an LLP Acceleration Notice, whereupon the Bond Trustee will have a claim under the Covered Bond Guarantee for an amount equal to the Early Redemption Amount of each Covered Bond, together with accrued interest and all other amounts then due under the Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)), although in such circumstances the LLP will not be obliged to gross up in respect of any withholding or deduction which may be required in respect of any payment. Following service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP, the Security Trustee may enforce the Security over the Charged Property. The proceeds of enforcement and realisation of the Security shall be applied by the Security Trustee in accordance with the Post-Enforcement Priority of Payments in the Deed of Charge, and Covered Bondholders will receive amounts from the LLP on an accelerated basis.

#### **Finite resources available to the LLP to make payments due under the Covered Bond Guarantee**

The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on (i) the realisable value of Selected Loans and their Related Security in the Portfolio, (ii) the amount of Revenue Receipts and Principal Receipts generated by the Portfolio and the timing thereof, (iii) amounts received from the Swap Providers, (iv) realisable value of other assets of the LLP, including Substitution Assets and Authorised Investments and (v) the receipt by it of credit balances and interest on credit balances on the GIC Account and the other LLP Accounts. The LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee.

If, following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Security created by or pursuant to the Deed of Charge is enforced, the Charged Property may not be sufficient to meet the claims of all the Secured Creditors, including the Covered Bondholders.

If, following enforcement of the Security constituted by or pursuant to the Deed of Charge, the Secured Creditors have not received the full amount due to them pursuant to the terms of the Transaction Documents, then they may still have an unsecured claim against the Issuer for the shortfall. There is no guarantee that the Issuer will have sufficient funds to pay that shortfall.

Covered Bondholders should note that the Asset Coverage Test has been structured to ensure that the Adjusted Aggregate Loan Amount is equal to or greater than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding, which should reduce the risk of there being a shortfall (although there is no assurance of this – in particular, the sale of further Loans and Related Security by the Seller to the LLP may be required to avoid or remedy a breach of the Asset Coverage Test) (see *Summary of the Principal Documents – LLP Deed – Asset Coverage Test*). The Asset Coverage Test, the Amortisation Test, the Interest Rate Shortfall Test, and the Yield Shortfall Test have in the aggregate been structured to ensure that the Asset Pool is sufficient to pay amounts due on the Covered Bonds and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. However no assurance can be given that the Asset Pool will yield sufficient amounts for such purpose.

For so long as the Covered Bonds are rated by Moody's, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to the Security Trustee of the proposed percentage (used in the computation of the Adjusted Aggregate Loan Amount and the Asset Percentage) selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa

rating by Moody's using Moody's expected loss methodology. However there is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with such level of credit enhancement. If the LLP does not send further notification to Moody's and the Security Trustee, the Asset Percentage may not be reduced and may be insufficient to ensure the maintenance of an Aaa rating by Moody's and the Covered Bonds may be downgraded, without resulting in a breach of the Asset Coverage Test. An Issuer Event of Default and/or an LLP Event of Default will not occur solely as a result of a downgrade of the Covered Bonds.

### **Maintenance of Portfolio**

*Asset Coverage Test:* The Asset Coverage Test is met if the Adjusted Aggregate Loan Amount is equal to or exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time to time. Pursuant to the terms of the LLP Deed, the Seller will agree to use all reasonable endeavours to transfer Loans and their Related Security or Substitution Assets to the LLP or make a Cash Capital Contribution in order to ensure that the Portfolio is in compliance with the Asset Coverage Test. In consideration of the transfer of Loans and their Related Security or Substitution Assets, the Seller will receive one or a combination of, (a) a cash payment made by the LLP, (b) the Seller being treated as having made a Capital Contribution to the LLP (in an amount up to the difference between the Current Balance of the Loans or Substitution Assets sold by the Seller to the LLP as at the relevant Sale Date and the cash payment (if any) made by the LLP for such Loans or Substitution Assets) and/or (c) Deferred Consideration (including any Postponed Deferred Consideration).

Alternatively, Lloyds TSB Bank plc (in its capacity as Member of the LLP) may make a Cash Capital Contribution to the LLP pursuant to the LLP Deed in order to ensure that the LLP is in compliance with the Asset Coverage Test. If a breach of the Asset Coverage Test occurs on any Calculation Date and is not cured by the following Calculation Date, the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP which for so long as such Asset Coverage Test Breach Notice remains outstanding will result, *inter alia*, in the sale of Selected Loans, see further *Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security*. If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice on the Issuer. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP. There is no specific recourse by the LLP to the Seller in respect of the failure to transfer Loans and their Related Security or Substitution Assets to the LLP nor is there any specific recourse to Lloyds TSB Bank plc if it does not make Cash Capital Contributions to the LLP.

*Amortisation Test:* Pursuant to the LLP Deed, the LLP and Lloyds TSB Bank plc (in its capacity as a Member of the LLP) must ensure, on each Calculation Date following service of a Notice to Pay but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, that the Amortisation Test Aggregate Loan Amount is in an amount at least equal to the aggregate Sterling Equivalent of the Principal Amount Outstanding under the Covered Bonds. The Amortisation Test is intended to ensure that the assets of the LLP do not fall below a certain threshold so that the assets of the LLP are sufficient to meet its obligations under the Covered Bond Guarantee and expenses that rank in priority to or *pari passu* with amounts due on the Covered Bonds.

If the collateral value of the Portfolio has not been maintained in accordance with the terms of the Asset Coverage Test and, if applicable, the Amortisation Test, then that may affect the realisable value of the Portfolio or any part thereof (both before and after the occurrence of an LLP Event of Default) and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

Prior to service of a Notice to Pay or an LLP Acceleration Notice, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, test the calculations performed by the Cash Manager in respect of the Asset Coverage Test once each year on the Calculation Date immediately prior to each anniversary of the Programme Date and more frequently in certain circumstances. Following service of a Notice to Pay (but prior to service of an LLP Acceleration Notice), the Asset Monitor will be required to test the calculations performed by the Cash Manager in respect of the Amortisation Test. See further *Summary of the Principal Documents – Asset Monitor Agreement*.

Neither the Bond Trustee nor the Security Trustee shall be responsible for monitoring compliance with, nor the monitoring of, the Asset Coverage Test, the Pre-Maturity Liquidity Test or the Amortisation Test or any other test, or supervising the performance by any other party of its obligations under any Transaction Document.

### **Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice is outstanding or following service of a Notice to Pay**

If an Asset Coverage Test Breach Notice or a Notice to Pay is served on the LLP (and, in the case of service of an Asset Coverage Test Breach Notice, for so long as such notice remains outstanding), the LLP will be obliged to sell Selected Loans and their Related Security (selected on a random basis) in order to remedy a breach of the Asset Coverage Test or to make payments to the LLP's creditors, including payments under the Covered Bond Guarantee, as appropriate, subject to a right of pre-emption in favour of the Seller pursuant to the terms of the LLP Deed (see *Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding* and *Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay*).

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which the LLP may be able to obtain, which may affect the ability of the LLP to make payments under the Covered Bond Guarantee. However, if a Notice to Pay has been served, the Selected Loans may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to the Final Maturity Date in respect of such Covered Bonds or (if the same is specified as applicable in the relevant Final Terms) the Extended Due for Payment Date in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Due for Payment Date, the LLP is obliged to sell the Selected Loans and their Related Security for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount. If Selected Loans are not sold for an amount equal to or in excess of the Adjusted Required Redemption Amount, the LLP may have insufficient funds available to pay the Covered Bonds.

On the Final Maturity Date of a Series of Covered Bonds or, as applicable on each Interest Payment Date up to and including, the Extended Due for Payment Date, the LLP will apply all proceeds standing to the credit of the GIC Account to redeem the relevant Series of Covered Bonds. Such proceeds will include the sale proceeds of Selected Loans (including any excess sale proceeds resulting from the sale of Selected Loans sold in respect of another Series of Covered Bonds) and all principal repayments received on the Loans in the Portfolio generally. This may adversely affect later maturing Series of Covered Bonds if the Selected Loans sold to redeem an earlier maturing Series of Covered Bonds are sold for less than the Adjusted Required Redemption Amount and accordingly the LLP is required to apply other assets in the Portfolio (i.e. Principal Receipts) to redeem that earlier maturing Series of Covered Bonds.

### **Sale of Selected Loans and their Related Security prior to maturity of Hard Bullet Covered Bonds where the Pre-Maturity Liquidity Test is breached**

For those bonds classified as Hard Bullet Covered Bonds, if the Pre-Maturity Liquidity Test is breached, the LLP is obliged to sell Selected Loans and their Related Security (selected on a random basis) to seek to generate sufficient cash to enable the LLP to pay the Final Redemption Amount, on any Hard Bullet Covered Bond, should the Issuer fail to pay. (See *Summary of the Principal Documents – LLP Deed – Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached*.)

There is no guarantee that a buyer will be found to acquire Selected Loans and their Related Security at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained, which may affect payments under the Covered Bond Guarantee.

### **No representations or warranties to be given by the LLP or the Seller if Selected Loans and their Related Security are to be sold**

Following a breach of (i) the Pre-Maturity Liquidity Test; and/or (ii) service of an Asset Coverage Test Breach Notice which remains outstanding or (iii) a Notice to Pay (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption in favour of the Seller pursuant to the terms of the LLP Deed (see *Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans*). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give representations and warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee acting on the instructions of the Bond Trustee, itself acting on advice of a financial or other adviser (selected or approved by it) opining or confirming that the provision of any such warranties and/or indemnities is appropriate in the circumstances and in accordance with market practice and

neither the Security Trustee nor the Bond Trustee shall have any liability or be liable to any other person for acting upon such advice, opinion or confirmation). There is no assurance that the Seller would give any representations and warranties or indemnities in respect of the Selected Loans and their Related Security. Any Representations and Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

**Factors that may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee**

The realisable value of Selected Loans and their Related Security comprised in the Portfolio may be affected generally by the economic conditions prevalent at the time of sale and in particular may be reduced (which may affect the ability of the LLP to make payments under the Covered Bond Guarantee) by:

- delinquencies or default by Borrowers in payment of amounts due on their Loans;
- the Loans of New Sellers being included in the Portfolio;
- changes to the lending criteria of the Seller since the time of origination;
- the LLP not having legal title to the Loans in the Portfolio;
- set-off risks in relation to some types of Loans in the Portfolio;
- sale of Selected Loans and their Related Security;
- no representations or warranties being given by the LLP or (unless otherwise agreed with the Seller) the Seller;
- limited recourse to the Seller or any New Seller;
- reliance of the LLP on third parties;
- possible regulatory changes by the OFT, the FSA and other regulatory authorities (see *General Risk Factors*);
- regulations in the UK that could lead to some of the Loans or their Related Security being unenforceable, cancellable or subject to set-off, or some of their terms being unenforceable (see *General Risk Factors*); and
- the impact of the Pensions Act 2004 (see *General Risk Factors*).

Certain of these factors are considered in more detail below. However, it should be noted that the Asset Coverage Test, the Amortisation Test and the Eligibility Criteria are intended to ensure that there will be an adequate amount of Loans in the Portfolio and moneys standing to the credit of the GIC Account to enable the LLP to repay the Covered Bonds following service on the LLP of a Notice to Pay or an LLP Acceleration Notice and accordingly it is expected (but there is no assurance) that Selected Loans and their Related Security could be realised for sufficient value to enable the LLP to meet its obligations under the Covered Bond Guarantee.

**Delinquencies or Default by Borrowers in paying amounts due on their Loans**

Borrowers may default on their obligations under the Loans in the Portfolio. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Loans. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding

under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

Any Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of any calculation of the Asset Coverage Test and the Amortisation Test.

### **The Loans of New Sellers may be included in the Portfolio**

New Sellers may in the future accede to the Programme and sell Loans and their Related Security to the LLP. However, this would only be permitted if the conditions precedent relating to New Sellers acceding to the relevant Transaction Documents (more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement – New Sellers* below) are met. Provided that those conditions are met, the consent of Covered Bondholders to the accession of any New Seller to the relevant Transaction Documents will not need to be obtained.

Any loans originated by a New Seller will have been originated in accordance with the lending criteria of the New Seller, which may differ from the Lending Criteria for Loans originated by the Seller. If the lending criteria differ in a way that affects the creditworthiness of the Loans in the Portfolio, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio or any part thereof or the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

### **Changes to the Lending Criteria of the Seller since the time of origination**

Each of the Loans originated by the Seller will have been originated in accordance with its Lending Criteria at the time of origination, subject only to exceptions properly approved on a case by case basis. It is expected that the Seller's Lending Criteria will generally consider (amongst other things) type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. In the event of the assignment or assignation of any Loans and their Related Security to the LLP, the Seller will warrant only that such Loans and Related Security were originated in accordance with its Lending Criteria applicable at the time of origination, subject only to exceptions properly approved on a case by case basis. The Seller retains the right to revise its Lending Criteria from time to time but would do so only to the extent that such a change would be acceptable to a Reasonable, Prudent Mortgage Lender. If the Lending Criteria change in a manner that affects the creditworthiness of the Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Portfolio, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee. As noted above, however, Defaulted Loans in the Portfolio will be given a reduced weighting for the purposes of the calculation of the Asset Coverage Test and the Amortisation Test.

### **The LLP does not have legal title to the Loans in the Portfolio on the relevant Sale Date**

The sale by the Seller to the LLP of English Loans and their Related Security will take effect by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. As a result, legal title to English Loans and Scottish Loans, together with, in each case, their Related Security will remain with the Seller. The LLP, however, will have the right to demand that the Seller transfer to it legal title to the Loans and the Related Security in the circumstances described in *Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of Title to the Loans to the LLP* and until such right arises the LLP will not give notice of the sale of the Loans and their Related Security to any Borrower or apply to the Land Registry or the Central Land Charges Registry (in relation to the English Loans) to register or record its equitable interest in the English Loans and their Related Security or take any steps to perfect its title to the Scottish Loans and their Related Security.

Since the LLP has not obtained legal title to the Loans or their Related Security and has not perfected its interest in the Loans and their Related Security by registration of a notice at the Land Registry or otherwise perfected its legal title to the Loans or their Related Security, the following risks exist:

- first, if the Seller wrongly sells a Loan and its Related Security, which has already been assigned to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred, then the LLP would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the

interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the LLP or their respective personnel or agents;

- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and
- third, unless the LLP has perfected the assignment or assignation of the Loans (which it is only entitled to do in certain circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

If any of the risks described in the first two bullet points above were to occur then the realisable value of the Portfolio or any part thereof and/or the ability of the LLP to make payments under the Covered Bond Guarantee may be affected.

Once notice has been given to the Borrowers of the assignment or assignation (as appropriate) of the Loans and their Related Security to the LLP, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist. In relation to potential transaction set-off in respect of certain types of Loans, see the following risk factor.

It should be noted however, that the Asset Coverage Test seeks to take account of the potential set-off risk associated with Borrowers holding deposits with the Seller (although there is no assurance that all such risks will be accounted for). Further, for so long as the LLP does not have legal title, the Seller will undertake for the benefit of the LLP and the Secured Creditors that it will, if reasonably required to do so by the LLP or the Security Trustee, participate or join in any legal proceedings to the extent necessary to protect, preserve and enforce the Seller's, the LLP's or the Security Trustee's title to or interest in any Loan or its Related Security, and take such other steps as may be reasonably required by the LLP or the Security Trustee in relation to any legal proceedings in respect of the Loans and their Related Security.

**Set-off risks in relation to some types of Loans may adversely affect the value of the Portfolio or any part thereof**

As described in the immediately preceding risk factor, the sale by the Seller to the LLP of English Loans will be given effect by an equitable assignment, and each sale of Scottish Loans will be given effect by a Scottish Declaration of Trust. As a result, legal title to the English Loans and the Scottish Loans and their Related Security sold by the Seller to the LLP will remain with the Seller. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the Seller, including rights of set-off existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) of the Loans. Some of the Loans in the Portfolio may have increased risks of set-off, because the Seller is required to make payments under them to the Borrowers. For instance, set-off rights may occur if the Seller fails to advance to a Borrower a Flexible Loan Drawing when the Borrower is entitled to draw additional amounts under a Flexible Loan.

New products offered by the Seller in the future may have similar characteristics involving payments due from the Seller to the Borrower or third parties on behalf of the Borrower.

For instance, if the Seller fails to advance a Flexible Loan Drawing in accordance with the terms of the relevant Loan then the relevant Borrower may set off any damages claim (or analogous rights in Scotland) arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Loans and the Mortgages in the Portfolio, the LLP's) claim for payment of principal and/or interest under the relevant Loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.

The amount of any such claim in respect of a Flexible Loan Drawing will, in many cases, be the cost to the Borrower of finding an alternative source of funds (although, in the case of a Flexible Loan Drawing, in respect of a Scottish Loan, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for

example, legal fees and survey fees). If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage or which otherwise were reasonably foreseeable.

A Borrower may also attempt to set off an amount greater than the amount of his or her damages claim (or analogous rights in Scotland) against his or her mortgage payments. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

Further, there may be circumstances in which:

- a Borrower may seek to argue that amounts comprised in the current balance of Loans as a consequence of Flexible Loan Drawings are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 (as amended, the CCA); or
- certain Flexible Loan Drawings may rank behind security created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee. The Asset Coverage Test seeks to take account of these set-off risks, including the set-off risk relating to any Flexible Loans in the Portfolio (although there is no assurance that such risks will be accounted for).

### **Excess Proceeds received by the Bond Trustee**

Following service of an Issuer Acceleration Notice, the Bond Trustee may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and will be held by the LLP in the GIC Account. The Excess Proceeds will thereafter form part of the Security and will be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account. Any Excess Proceeds received by the Bond Trustee will discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (subject to restitution of the same if such Excess Proceeds shall be required to be repaid by the Bond Trustee or the LLP). However, the obligations of the LLP under the Covered Bond Guarantee are (subject only to service of a Notice to Pay or an LLP Acceleration Notice) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds will not reduce or discharge any such obligations.

By subscribing for the Covered Bonds, each of the Covered Bondholders will be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

### **Limited recourse to the Seller**

The LLP, the Bond Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and will rely instead on the Representations and Warranties given in the Mortgage Sale Agreement by the Seller in respect of the Loans sold by it to the LLP.

If any Loan sold by the Seller does not materially comply with any of the Representations and Warranties made by the Seller as at the Sale Date of that Loan, then the Seller will be required to remedy the breach within 20 London Business Days (or such longer period as the Security Trustee may direct) of receipt by it of a notice from the LLP requiring the Seller to remedy the breach.

If the Seller fails to remedy the breach of a Representation and Warranty within such 20 London Business Day period (or any longer period permitted), then the Seller will be required to repurchase on or before the next following Calculation Date (or such other date that may be agreed between the LLP and the Seller) the relevant Loan and its Related Security and any other Loan secured or intended to be secured by that Related Security or any part of it at their Current Balance.

There can be no assurance that the Seller will have the financial resources to repurchase a Loan or Loans and its or their Related Security. However, if the Seller does not repurchase those Loans and their Related Security which are in breach of the Representations and Warranties, then the Current Balance of those Loans will be excluded from the calculation of the Asset Coverage Test. There is no further recourse to the Seller in respect of a breach of a Representation or Warranty.

### **Reliance of the LLP on third parties**

The LLP has entered into agreements with a number of third parties, which have agreed to perform services for the LLP. In particular, but without limitation, the Servicer has been appointed to service Loans in the Portfolio, the Cash Manager has been appointed to calculate and monitor compliance with the Asset Coverage Test and the Amortisation Test and to provide cash management services to the LLP, the Account Bank has been appointed to provide banking services and the GIC Provider has been appointed to receive and hold moneys on behalf of the LLP and to provide an agreed rate of interest thereon. In the event that any of those parties fails to perform its obligations under the relevant agreement to which it is a party, the realisable value of the Portfolio or any part thereof or pending such realisation (if the Portfolio or any part thereof cannot be sold) the ability of the LLP to make payments under the Covered Bond Guarantee may be affected. For instance, if the Servicer has failed to adequately manage the Loans, this may lead to higher incidences of non-payment or default by Borrowers. The LLP is also reliant on the Swap Providers to provide it with the funds matching its obligations under the Intercompany Loan Agreement (where the relevant Term Advances are not denominated in Sterling) and the Covered Bond Guarantee, as described in the following two risk factors.

If a Servicer Termination Event occurs pursuant to the terms of the Servicing Agreement, then the LLP and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place. There can be no assurance that a substitute servicer with sufficient experience of managing mortgages of residential properties would be found who would be willing and able to service the Loans in the Portfolio on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer would be required to be authorised under the FSMA in order to manage the Loans in the Portfolio. The ability of a substitute servicer to perform fully the required services would depend on, among other things, the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Portfolio or any part thereof and/or the ability of the LLP to make payments under the Covered Bond Guarantee. However, if the Servicer or, for so long as the Servicer benefits from the Parent Support Deed or any other parent support deed from time to time, Lloyds TSB Bank plc as the parent under the Parent Support Deed or such other parent as is relevant from time to time ceases to be assigned a long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB-, the LLP will be required to use reasonable endeavours to enter into a servicing agreement with a third party in order to ensure continued servicing of the Loans in the Portfolio.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion. The Servicer will not be required to seek the consent or approval of the Covered Bondholders before taking any action under the Servicing Agreement.

Neither the Security Trustee nor the Bond Trustee is obliged in any circumstances to act as a servicer or to monitor the performance by the Servicer of its obligations.

### **Reliance on Swap Providers**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, fixed rates of interest or rates of interest which track a base rate) and LIBOR for periodic Sterling deposits, the LLP will enter into an Interest Rate Swap with the Interest Rate Swap Provider in respect of each Series of Covered Bonds under the Interest Rate Swap Agreement. In addition, to provide a hedge against interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP on the outstanding Term Advances and under the Covered Bond Guarantee in respect of the Covered Bonds, the LLP will, where the relevant Term Advances have not been made to the LLP in Sterling, enter into a Non-Forward Starting Covered Bond Swap with a Covered Bond Swap Provider in respect of a Series of Covered Bonds under the Covered Bond Swap Agreement between the LLP and that Covered Bond Swap Provider. Where the relevant Term Advances have been made to the LLP in Sterling, to provide a hedge against interest rate, currency (if applicable) and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Covered Bond Guarantee after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, the LLP will, where relevant, enter into a Forward Starting Covered Bond Swap with a Covered Bond Swap Provider in respect of a Series of Covered Bonds under a Covered Bond Swap Agreement between the LLP and that Covered Bond Swap Provider.

If the LLP fails to make timely payments of amounts due under any Swap Agreement, then it will have defaulted under that Swap Agreement and such Swap Agreement may be terminated by the relevant Swap Provider. A Swap Provider is only obliged to make payments to the LLP as long as the LLP complies with its payment obligations under the relevant Swap Agreement. If a Swap Agreement terminates or the Swap Provider



is not obliged to make payments or if the Swap Provider defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the due date for payment under the relevant Swap Agreement, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling (where relevant) and to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the LLP may have insufficient funds to make payments under the outstanding Term Advances and, following service of a Notice to Pay or an LLP Acceleration Notice on the LLP, under the Covered Bond Guarantee.

If a Swap Agreement terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies.

If the LLP is obliged to pay a termination payment under any Swap Agreement, such termination payment will rank ahead of amounts due on the Covered Bonds (in respect of the Interest Rate Swap) and *pari passu* with amounts due on the Covered Bonds (in respect of the Covered Bond Swaps), except where default by, or downgrade of, the relevant Swap Provider has caused the relevant Swap Agreement to terminate. The obligation on the LLP to make a termination payment may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

### **Differences in timings of obligations of the LLP and the Covered Bond Swap Provider under the Covered Bond Swaps**

With respect to each of the Non-Forward Starting Covered Bond Swaps, the LLP will, periodically, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on LIBOR for Sterling deposits for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Non-Forward Starting Covered Bond Swap until amounts are due and payable by the LLP under the Intercompany Loan Agreement or Due for Payment under the Covered Bond Guarantee. With respect to each of the Forward Starting Covered Bond Swaps, the LLP will, periodically following service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, pay or provide for payment of an amount to each corresponding Covered Bond Swap Provider based on LIBOR for Sterling deposits for the agreed period. The Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Forward Starting Covered Bond Swap until amounts are Due for Payment under the Covered Bond Guarantee. If a Covered Bond Swap Provider does not meet its payment obligations to the LLP under the relevant Covered Bond Swap Agreement or such Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP under the Covered Bond Swap Agreement, the LLP may have a larger shortfall in funds with which to make payments under the Intercompany Loan Agreement or under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the LLP's payment obligations under the Covered Bond Swap. Hence, the difference in timing between the obligations of the LLP and the obligations of the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the outstanding Term Advances and, following service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, under the Covered Bond Guarantee with respect to the Covered Bonds. A Covered Bond Swap Provider may be required, following a downgrade of its ratings below the ratings specified in the relevant Covered Bond Swap Agreement and pursuant to the terms of the relevant Covered Bond Swap Agreement, to post collateral with the LLP if the LLP's net exposure to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement exceeds a certain threshold level.

### **Change of counterparties**

The parties to the Transaction Documents who receive and hold moneys pursuant to the terms of such documents (such as the Account Bank) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term, unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the

terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Covered Bondholders may not be required in relation to such amendments and/or waivers.

### **Limited Liability Partnerships**

The LLP is a limited liability partnership. Limited liability partnerships, created by statute pursuant to the Limited Liability Partnership Act 2000 (the **LLPA**), are bodies corporate and have unlimited capacity. A general description of limited liability partnerships is set out below under *Description of Limited Liability Partnerships* below. This area of the law in the UK is relatively undeveloped. Accordingly, there is a risk that as the law develops, new case law or new regulations made under or affecting the LLPA or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the Transaction Documents which could, in turn, adversely affect the interests of the Covered Bondholders.

### **Homeowner Mortgage Support Scheme**

On 3 December 2008, the UK Government released a preliminary announcement on the Homeowner Mortgage Support Scheme (the **HMSS**). Further details on the HMSS were published on 10 December 2008. The final scheme documentation was published on 21 April 2009 at which time, the Issuer announced its intention to participate in the HMSS. The terms of the HMSS provide that, subject to certain conditions, eligible mortgage borrowers experiencing a temporary loss of income will be allowed to defer up to 70% of interest payments for up to two years, with a percentage of the deferred interest payments being guaranteed by the UK Government in certain circumstances should the borrower default. The participation by the Issuer in the HMSS may have an adverse effect on the collection of interest on the Loans, the timing of enforcement of the Mortgages and accordingly on the Issuer's ability to make payments in respect of the Covered Bonds.

### **Divestment by the Group of mortgages, which may otherwise have been transferred to the LLP as New Loans or Substitution Assets, as a result of the restructuring plan approved by the European commission on 18 November 2009**

As a result of the restructuring plan approved by the European commission on 18 November 2009, approximately 19 per cent. of the Group's mortgage assets are to be divested within approximately four years; however the mortgage assets of the Group to be divested cannot be determined with precision until nearer the date of sale. This divestment of mortgage assets, some of which may meet the Eligibility Criteria and which may have otherwise been available to be transferred to the LLP as New Loans, may reduce the pool of eligible mortgages available to meet the requirements of the programme. There can be no assurance that a sufficient number of mortgage assets which meet the Eligibility Criteria will be available to meet the replenishment needs of the LLP. In the event that the pool of mortgage assets available to be transferred as New Loans is reduced, to the extent that a shortfall results, any such shortfall would likely be met from the sale of Loans originated by another member of the Group to the LLP, subject to any necessary approval of such sale by the transaction parties, or alternatively cash or Substitution Assets (up to the permitted level). The retention of cash or purchase of Substitution Assets could affect the level of revenue receipts, which, together with a potentially limited supply of mortgage assets, may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

## **RISK FACTORS RELATING TO THE COVERED BONDS**

### **Issuer liable to make payments when due on the Covered Bonds**

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and (subject to applicable law) equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations to be preferred by law).

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until (A) service of a Notice to Pay on the LLP subsequent to (i) an Asset Coverage Test Breach Notice being served and not revoked within the requisite time period and/or a breach of the Pre-Maturity Test or (ii) the occurrence of an Issuer Event of Default and service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice or (B) if earlier the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP

Acceleration Notice. The occurrence of an Issuer Event of Default or an Asset Coverage Test Breach Notice being served and not revoked within the requisite time period and/or a breach of the Pre-Maturity Test does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and the Security Trustee to enforce the Security.

#### **Covered Bonds and the Covered Bond Guarantee are obligations of the Issuer and the LLP only**

The Covered Bonds and the Covered Bond Guarantee are obligations of the Issuer and the LLP, respectively, as described above, and the Covered Bonds are not guaranteed by any other entity of the Lloyds Banking Group and accordingly the holders of Covered Bonds have recourse in respect thereof only to the Issuer and, to the extent described above, the LLP.

#### **Extendable obligations under the Covered Bond Guarantee**

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to the applicable grace period) and if, following service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date), payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds is not made in full by the Extension Determination Date, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no LLP Acceleration Notice having been served) only if the Final Terms for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

To the extent that the LLP has received a Notice to Pay by the time specified above and has sufficient moneys available under the Guarantee Priority of Payments to pay in part the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds, the LLP shall make partial payment of the Final Redemption Amount in accordance with the Guarantee Priority of Payments as described in Condition 6.1 (*Final redemption*). Payment of the unpaid portion of the Final Redemption Amount shall be deferred automatically until the applicable Extended Due for Payment Date. The Extended Due for Payment Date will fall one year after the Final Maturity Date. The LLP shall be entitled to make payments in respect of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date. Interest will continue to accrue and be payable on the unpaid portion of the Final Redemption Amount in accordance with Condition 4 (*Interest and other Calculations*) and the LLP will pay Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and the Extended Due for Payment Date. In these circumstances, except where the LLP has failed to apply any amount in accordance with the Guarantee Priority of Payments, failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to the applicable grace period) shall not constitute an LLP Event of Default. However, failure by the LLP to pay Guaranteed Amounts corresponding to the Final Redemption Amount or the balance thereof, as the case may be, on the Extended Due for Payment Date or to pay Guaranteed Amounts constituting Scheduled Interest on any Original Due for Payment Date or the Extended Due for Payment Date (in each case subject to the applicable grace period) shall constitute an LLP Event of Default.

#### **Limited description of the Portfolio**

Covered Bondholders will not receive detailed statistics or information in relation to the Loans in the Portfolio, because it is expected that the constitution of the Portfolio will frequently change due to, for instance:

- the Seller selling New Loans and their Related Security (or New Loan Types and their Related Security) to the LLP;
- the Seller repurchasing Loans and their Related Security from the LLP in accordance with the Mortgage Sale Agreement and the LLP Deed;
- repayments by Borrowers, from time to time, of the Loans in the Portfolio; and
- New Sellers acceding to the Transaction Documents and selling and/or repurchasing New Seller Loans and their Related Security (or New Loan Types and their Related Security) to or from the LLP.

There is no assurance that the characteristics of the New Loans, New Loan Types or New Seller Loans assigned to the LLP on any Sale Date will be the same as those Loans in the Portfolio as at that Sale Date. However, each Loan will be required to meet the Eligibility Criteria and the Representations and Warranties set out in the

Mortgage Sale Agreement – see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security* (although the Eligibility Criteria and Representations and Warranties may change in certain circumstances – see *The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent* below). In addition, the Asset Coverage Test is intended to ensure that the Adjusted Aggregate Loan Amount is an amount equal to or in excess of the Aggregate Principal Amount Outstanding of the Covered Bonds for so long as Covered Bonds remain outstanding (although there is no assurance that it will do so) and the Cash Manager will provide monthly reports that will set out certain information in relation to the Asset Coverage Test.

### **The Loans are affected by credit, liquidity and interest rate risk**

Over the last few years and as a result of, among other things, fluctuations in the Bank of England base rate, there has been a cycle of rising and falling mortgage interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may ultimately result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. The recent declines in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

### **Ratings of the Covered Bonds**

The ratings assigned to the Covered Bonds address, *inter alia*:

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date;
- the likelihood of timely payment of principal in relation to the Hard Bullet Covered Bonds on the Final Maturity Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof, or (b) if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee in accordance with the applicable Final Terms, the Extended Due for Payment Date thereof.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds. In addition, at any time a Rating Agency may revise its relevant rating methodology with the result that, amongst other things, a rating assigned to the Covered Bonds may, in the absence of any mitigating action being taken such as the modification of the Transaction Documents, be lowered. Additionally, a reduction in the credit ratings of the Issuer or of the Company may negatively impact the ratings of the Programme and any Covered Bonds.

### **Rating Agency Confirmation in respect of Covered Bonds**

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer must, and the Bond Trustee or the Security Trustee may, obtain confirmation from the Rating Agencies that any particular action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Interest Rate Swap Provider, any Covered Bond Swap Provider, the Bond Trustee or the Security Trustee will not adversely affect the then current ratings of the Covered Bonds (a **Rating Agency Confirmation**).

By acquiring the Covered Bonds, investors will be deemed to have acknowledged and agreed that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that

may be of relevance to Covered Bondholders, including, without limitation, in the case of a Rating Agency Confirmation, whether any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document is either (i) permitted by the terms of the relevant Transaction Document, or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders. In being entitled to have regard to the fact that the Rating Agencies have either confirmed that the then current ratings of the Covered Bonds would not be adversely affected or withdrawn or indicated that it does not consider such confirmation to be necessary, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.

Any such Rating Agency Confirmation or indication that such Rating Agency Confirmation is not necessary may or may not be given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof. Such confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the securities form part since the issuance closing date. A Rating Agency Confirmation represents only a restatement of the opinions given, and is given on the basis that it will not be construed as advice for the benefit of any parties to the transaction.

### **Covered Bonds issued under the Programme**

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series).

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the Security granted by the LLP under or pursuant to the Deed of Charge. Following the occurrence of an Issuer Event of Default and service by the Bond Trustee of an Issuer Acceleration Notice, the Covered Bonds of all outstanding Series will accelerate against the Issuer but will be subject to, and have the benefit of, payments made by the LLP under the Covered Bond Guarantee (following either an event triggering Issuer Acceleration or service of a Notice to Pay).

Following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice, the Covered Bonds of all Series outstanding will accelerate against the Issuer (if not already accelerated following service of an Issuer Acceleration Notice) and the obligations of the LLP under the Covered Bond Guarantee will accelerate.

### **Further Issues**

In order to ensure that any further issue of Covered Bonds under the Programme does not adversely affect existing Covered Bondholders:

- the Issuer will be obliged to apply the proceeds of any issue of Covered Bonds (or the Sterling Equivalent thereof) to make a Term Advance to the LLP. The LLP will use the proceeds of such Term Advance (after exchanging the same into Sterling if necessary under the applicable Non-Forward Starting Covered Bond Swap):
  - (a) to acquire Loans and their Related Security from the Seller; and/or
  - (b) to acquire Substitution Assets up to the prescribed limit; and/or
  - (c) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
  - (d) subject to complying with the Asset Coverage Test, to make a Capital Distribution to a Member; and/or
  - (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limited);

- the Asset Coverage Test will be required to be met both before and immediately after any further issue of Covered Bonds; and
- on or prior to the date of issue of any further Covered Bonds, the Issuer will be obliged to obtain written confirmation from the Rating Agencies that such further issue would not adversely affect the then current ratings of the existing Covered Bonds.

### **Obligations under the Covered Bonds**

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arranger, the relevant Dealer, the Bond Trustee, the Security Trustee or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer and the LLP. The Issuer and the LLP will be liable solely in their corporate capacity for their obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

### **Security Trustee's powers may affect the interests of the Covered Bondholders**

In the exercise of its powers, trusts, authorities and discretions the Security Trustee shall only have regard to the interests of the Covered Bondholders, save in relation to a proposed modification to, or waiver or authorisation of any breach or proposed breach of, any provisions of the Covered Bonds of any Series or any of the Transaction Documents which, in its opinion, are materially prejudicial to the interests of any of the Covered Bondholders or the Covered Bond Swap Providers or the Interest Rate Swap Provider, where it shall only have regard to the interests of the Covered Bondholders and, except for a Covered Bond Swap Provider or Interest Rate Swap Provider who is a member of the Lloyds TSB Group, the Covered Bond Swap Providers and the Interest Rate Swap Provider.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for a Covered Bond Swap Provider or Interest Rate Swap Provider (as the case may be) who is a member of the Lloyds TSB Group, it shall give written notice to such Covered Bond Swap Provider or Interest Rate Swap Provider, setting out the relevant details and requesting its consent thereto. Any such Covered Bond Swap Provider or Interest Rate Swap Provider shall, within ten London Business Days of receipt of such notice (the **Relevant Period**), notify in writing the Security Trustee of (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or (b) subject to paragraph (a), its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonable in the circumstances). Any failure by the relevant Covered Bond Swap Provider or Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Covered Bond Swap Provider or Interest Rate Swap Provider to such proposed modification, waiver or authorisation, provided that the Security Trustee shall only agree to such modification, waiver or authorisation if it is satisfied that the exercise of its powers, trusts, authorities and discretions in respect of such modification, waiver or authorisation will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions, the Security Trustee may not act on behalf of the Seller.

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Security Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would be materially prejudiced thereby, the Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 20 per cent. of the Sterling Equivalent of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

### **Conflicts of Interest**

Conflicts of interest may arise during the life of the Programme as a result of various factors involving certain transaction parties. For example, such potential conflicts may arise because members of the Lloyds Banking Group act in several capacities under the Transaction Documents although the relevant rights and obligations under the Transaction Documents are not contractually conflicting and are independent from one another. Also during the course of their business activities, the transaction parties and/or any respective affiliates may operate, service, acquire or sell properties, or finance loans secured by properties, which are in the same markets as the Loans. In such cases, the interest of any of those parties or their affiliates or the interest of other parties for whom they perform servicing functions may differ from, and compete with, the interests of the Issuer or of the holders of the Covered Bonds.

**The Bond Trustee and the Security Trustee may agree to modifications to the Transaction Documents without, respectively, the Covered Bondholders' or Secured Creditors' prior consent**

Pursuant to the terms of the Trust Deed and the Deed of Charge, the Bond Trustee and the Security Trustee may, without the consent or sanction of any of the Covered Bondholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to, or waive or authorise any breach or proposed breach in respect of, the Transaction Documents and the Terms and Conditions of the Covered Bonds or determine that any condition, event or act which constitutes or which would or might but for such determination constitute an Issuer Event of Default, Potential Issuer Event of Default, LLP Event of Default or Potential LLP Event of Default shall not be treated as such provided that:

- (a) the Bond Trustee is of the opinion that such modification, waiver, authorisation or determination will not be materially prejudicial to the interests of any of the Covered Bondholders, and (b) the Security Trustee is of the opinion that such modification, waiver, authorisation or determination is not materially prejudicial to the interests of any of the Covered Bondholders or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or Interest Rate Swap Provider who is a member of the Lloyds Banking Group (where, if the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, the provisions referred to above under *Security Trustee's powers may affect the interests of the Covered Bondholders* shall apply); or
- in the case of modification only, such modification is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law,

provided further that, in respect of any proposed modification, waiver, authorisation or determination, prior to the Bond Trustee or the Security Trustee (as the case may be) agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

- (i) that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations or result in the Issuer and/or the Programme ceasing to be registered under the RCB Regulations; and
- (ii) that either: (a) such modification, waiver, authorisation or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or (b) if such modification, waiver or authorisation would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, waiver, authorisation or determination.

Notwithstanding the above, the Issuer, the LLP and the Principal Paying Agent may, without the consent or sanction of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, concur with any person in making or sanctioning any modification to the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

**Certain decisions of Covered Bondholders taken at Programme level**

Any Extraordinary Resolution to direct the Bond Trustee to serve an Issuer Acceleration Notice following an Issuer Event of Default, to direct the Bond Trustee to serve an LLP Acceleration Notice following an LLP Event of Default and any direction to the Bond Trustee or Security Trustee to take any enforcement action must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding.

**Realisation of Charged Property following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or following the commencement of winding-up proceedings against the LLP**

If an LLP Event of Default occurs and an LLP Acceleration Notice is served on the LLP and/or winding-up proceedings are commenced against the LLP, then the Security Trustee will be entitled to enforce the Security created under and pursuant to the Deed of Charge and the proceeds from the realisation of the Charged Property will be applied by the Security Trustee towards payment of all secured obligations in accordance with the Post-Enforcement Priority of Payments, described in *Cashflows* below.

There is no guarantee that the proceeds of realisation of the Charged Property will be in an amount sufficient to repay all amounts due to the Secured Creditors (including the Covered Bondholders) under the Covered Bonds and the Transaction Documents.

If, following the occurrence of an LLP Event of Default, an LLP Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

#### **Absence of secondary market**

No assurance is provided that there is an active and liquid secondary market for the Covered Bonds, and no assurance is provided that a secondary market for the Covered Bonds will develop. None of the Covered Bonds or the Covered Bond Guarantee has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under *Subscription and Sale and Transfer and Selling Restrictions*. To the extent that a secondary market exists or develops, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield. Consequently, a Covered Bondholder must be able to bear the economic risk of an investment in a Covered Bond for an indefinite period of time.

#### **Lack of liquidity in the secondary market may adversely affect the market value of the Covered Bonds**

As at the date of this Prospectus, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties have been forced to sell mortgage-backed securities into the secondary market. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially.

Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions persist, an investor in Covered Bonds may not be able to sell or acquire credit protection on its Covered Bonds readily and market values of Covered Bonds are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to an investor. It is not known for how long these market conditions will continue or whether they will worsen.

#### **Recent mortgage loan market developments**

In late 2006 the sub-prime mortgage loan market in the United States commenced a period characterised by a large number of borrower defaults. Prior to the commencement of such period, a significant volume of sub-prime mortgage loans had been securitised and, in turn, sub-prime mortgage backed securities had been sold to various investment funds. As a result of the deterioration of the U.S. sub-prime mortgage loan market, funds and institutions that invested in U.S. sub-prime mortgage-backed securities began experiencing significant losses which has triggered a series of events that have resulted in a severe liquidity crisis in the global credit markets since the summer of 2007.

There exist significant additional risks for the Issuer, the LLP and investors as a result of the current liquidity crisis. Those risks include, among others, (i) the likelihood that the Issuer and the LLP will find it harder to sell any of its assets in the secondary market, (ii) the possibility that, on or after the Issue Date, the price at which assets can be sold by the Issuer will have deteriorated from their effective purchase price and (iii) the increased illiquidity of mortgage-backed securities as there is currently limited liquidity in the secondary markets. These additional risks may affect the returns on the Covered Bonds to investors and/or the ability of investors to realise their investment in the Covered Bonds prior to their stated maturity.

The impact of the liquidity crisis on the primary market may additionally adversely affect the servicing flexibility of the Servicer in relation to the Portfolio and, ultimately the returns on the Covered Bonds to investors.

#### **Covered Bonds not in physical form**

Unless the Bearer Global Covered Bonds or the Registered Global Covered Bonds are exchanged for Bearer Definitive Covered Bonds or Registered Definitive Covered Bonds, respectively, which exchange will only



occur in the limited circumstances set out under *Form of the Covered Bonds – Bearer Covered Bonds* and *Form of the Covered Bonds – Registered Covered Bonds* below, the beneficial ownership of the Covered Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg and/or DTC. The fact that the Covered Bonds are not represented in physical form could, among other things:

- result in payment delays on the Covered Bonds because distributions on the Covered Bonds will be sent by or on behalf of the Issuer to Euroclear, Clearstream, Luxembourg or DTC instead of directly to Covered Bondholders;
- make it difficult for Covered Bondholders to pledge the Covered Bonds as security if Covered Bonds in physical form are required or necessary for such purposes; and
- hinder the ability of Covered Bondholders to resell the Covered Bonds because some investors may be unwilling to buy Covered Bonds that are not in physical form.

#### **General legal investment considerations**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

#### **UK Government Credit Guarantee Scheme, ABS Guarantee Scheme and Financial Services Compensation Scheme not applicable**

Pursuant to the Credit Guarantee Scheme, the Government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due, which is expected to close for new issuances in February 2010. The UK Government has indicated that certain debt instruments including the Covered Bonds are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Covered Bonds are not guaranteed by the UK Government under the above credit guarantee scheme. In addition, on 19 January 2009, the UK Government announced the introduction of the asset backed securities guarantee scheme, which expired at the end of 2009. The Covered Bonds are not guaranteed by the UK Government under the asset backed securities guarantee scheme. Also, any investment in the Covered Bonds does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.

For further information relating to the Financial Services Compensation Scheme see *Lloyds Banking Group – Regulation and Supervision in the United Kingdom*.

#### **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME**

##### **The Covered Bonds may not be a suitable investment for all investors**

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplemental prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including where principal or interest in respect of the Covered Bonds is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets;

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Covered Bonds.

In addition, an investment in Index Linked Interest Covered Bonds, Dual Currency Linked Covered Bonds, Equity Linked Covered Bonds, Currency Linked Interest Covered Bonds, Credit Linked Covered Bonds or other Covered Bonds linked to other assets or bases of reference, may entail significant risks not associated with investments in conventional securities such as debt or equity securities, including, but not limited to, the risks set out below in *Risks related to the structure of a particular issue of Covered Bonds*.

Some Covered Bonds are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Covered Bonds will perform under changing conditions, the resulting effects on the value of such Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

## **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF COVERED BONDS**

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

### **Covered Bonds subject to Optional Redemption by the Issuer**

An optional redemption feature is likely to limit the market value of Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### **Covered Bonds subject to Redemption for Taxation reasons**

Unless in the case of any particular Tranche or Series of Covered Bonds the relevant Final Terms specify otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Covered Bonds due to any withholding or deduction for or on account of any present or future taxes, duties, or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Covered Bonds in accordance with the Terms and Conditions.

### **Index Linked Interest Covered Bonds, Dual Currency Linked Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Redemption Covered Bonds and Index Linked Redemption Covered Bonds**

The Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Covered Bonds with interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

- the market price of such Covered Bonds may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency from that expected or may be subject to withholding or deduction for or on account of any taxes or other charges imposed by relevant governmental authorities or agencies;

- the amount of principal payable at redemption may be less than the nominal amount of any such Covered Bonds or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Interest Covered Bonds. Accordingly, each potential investor should consult its own financial, tax and legal advisers about the risk entailed by an investment in any Index Linked Interest Covered Bonds and the suitability of such Covered Bonds in light of their particular circumstances.

### **Partly-paid Covered Bonds**

The Issuer may issue Covered Bonds where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

### **Variable Interest Covered Bonds with a multiplier or other leverage factor**

Covered Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features. An investor may receive substantially less or no interest at all on such Variable Interest Covered Bonds.

### **Fixed/Floating Rate Covered Bonds**

Fixed/Floating Rate Covered Bonds may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than the prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing on its Covered Bonds.

### **Fixed Rate Covered Bonds**

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

### **Covered Bonds issued at a substantial discount or premium**

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### **The yield to maturity of the Covered Bonds may be adversely affected by redemptions by the Issuer**

The yield to maturity of each class of Covered Bonds will depend mostly on: (i) the amount and timing of the repayment of principal on the Covered Bonds, and (ii) the price paid by the Covered Bondholders of each class. The yield to maturity of the Covered Bonds may be adversely affected by a higher or lower than anticipated rate of redemption on the Covered Bonds.

## **GENERAL RISK FACTORS**

### **Fixed charges may take effect under English law as floating charges**

Pursuant to the terms of the Deed of Charge, the LLP has purported to grant fixed charges over, amongst other things, its interests in the English Loans and their Related Security, the Substitution Assets and its rights and benefits in the LLP Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the LLP (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Property. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any winding up or administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the UK tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the LLP has agreed in the Transaction Documents not to have any employees.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge.

### **Liquidation expenses**

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, it is now the case that in general the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

It appears that the provisions referred to above apply in respect of limited liability partnerships. On this basis and as a result of the changes described above, in a winding up of the LLP the floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses (including certain super-priority expenses). There can be no assurance that the Covered Bondholders will not be adversely affected by such a reduction in floating charge realisations.

### **Regulatory changes by the Financial Services Authority, the Office of Fair Trading and any other regulatory authorities**

In the UK, regulation of residential mortgage business by the FSA under the FSMA came into force on 31 October 2004, the date known as **N(M)**. Entering into, arranging or advising in respect of, and administering Regulated Mortgage Contracts, and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

A credit agreement is a Regulated Mortgage Contract under the FSMA if, at the time it is entered into on or after **N(M)**: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or, in Scotland, a first ranking standard security on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a "related person" (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse).

The main effects are that, on or after **N(M)**, unless an exclusion or exemption applies: (a) each entity carrying on a specified regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity; and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation from the FSA. It should be noted that the definition of a "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated by the CCA or treated as such or unregulated and under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of

financial promotions are not complied with, a Regulated Mortgage Contract (or, in the case of failure to comply with the financial promotions requirements, the relevant mortgage loan that is "qualifying credit") or other secured credit in question will be unenforceable against the borrower except with the approval of the court. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

The Seller is required to hold, and holds, authorisation and permission to enter into and to administer and, where applicable, to advise in respect of Regulated Mortgage Contracts. Brokers will in certain circumstances be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

The LLP is not and does not propose to be an authorised person under the FSMA with respect to Regulated Mortgage Contracts and related activities. The LLP does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The LLP does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates, however, the LLP will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSA authorisation and permission.

Credit agreements that were entered into before N(M), but are subsequently changed such that a new contract is entered into on or after N(M), are regulated under the FSMA where they fall within the definition of "regulated mortgage contract". However, on and after N(M), no variation may be made to the Loans and no Further Advance or Product Switch may be made in relation to a Loan, where it would result in the LLP arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the LLP would be required to be authorised under the FSMA to do so.

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under the FSMA, because of technical rules on: (a) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract"; and (b) changes to credit agreements.

The FSA's Mortgages and Home Finance: Conduct of Business Sourcebook (**MCOB**), which sets out the FSA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, among other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. FSA rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule (other than a rule in respect of which the right to damages is disappplied), and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA, and the relevant regulations made in 2005 and 2008 under the FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M), and credit agreements made before N(M) but subsequently changed such that a new contract is entered into on or after N(M) and constitutes a separate Regulated Mortgage Contract. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a Regulated Mortgage Contract to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or be treated as such.

Prior to N(M), in the United Kingdom, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1st November, 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The

CML Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for the regulation of Regulated Mortgage Contracts.

In the United Kingdom, the OFT is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the consumer credit and mortgages markets in the United Kingdom (except to the extent of the regulation of the market by the FSA under the FSMA, as described above). The licensing regime under the CCA is different from, and where applicable, additional to, the regime for authorisation under the FSMA.

A credit agreement is regulated by the CCA where: (a) the borrower is or includes an "individual" as defined in the CCA; (b) if the credit agreement was made before the financial limit was removed (as described below) the amount of "credit" as defined in the CCA does not exceed the financial limit of £25,000 for credit agreements made on or after 1 May 1998, or lower amounts for credit agreements made before that date; and (c) the credit agreement is not an exempt agreement under the CCA (for example, it is intended that a Regulated Mortgage Contract under the FSMA (as defined above) is an exempt agreement under the CCA).

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and procedures of credit agreements, and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower: (a) without an order of the OFT, if the lender or any broker does not hold the required licence at the relevant time; (b) totally, if the credit agreement is made before 6 April 2007 and if the form to be signed by the borrower is not signed by the borrower personally or omits or mis-states a "prescribed term"; or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability of the lender.

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA, or unregulated, might instead be wholly or partly regulated by the CCA or treated as such because of technical rules on: (a) determining whether any credit under the CCA arises or whether any applicable financial limit of the CCA is exceeded; (b) determining whether the credit agreement is an exempt agreement under the CCA; and (c) changes to the credit agreement.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a credit agreement to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend a credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under Section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off in respect of the Loans may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

The Consumer Credit Act 2006 (the **CCA 2006**), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008.

Under the CCA 2006, the "extortionate credit" regime is replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA. The test explicitly imposes liability to repay the borrower on both the originator and any assignee, such as the LLP. In applying the unfair relationship test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in United Kingdom legislation due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA's Principles for Businesses may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman and was established on 6 April 2007. The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA from 6 April 2008. For example, it can apply civil penalties, has greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal, whose functions were transferred to the First-Tier Tribunal under the Transfer of Functions of the Consumer Credit Appeals Tribunal Order 2009 on 1 September 2009.

The financial limit for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for buy-to-let loans made before 31 October 2008. Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a buy-to-let loan to the extent that the loan would, apart from the exemption provisions, be regulated by the CCA or be treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008: (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices; (b) the borrower will not be liable to any interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure; and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable on any early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies to credit agreements made on or after 31 May 2005, and applies retrospectively to all existing credit agreements from 31 May 2007 to 31 May 2010, depending on their term.

These changes to the CCA may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

The Seller, C&G and any other member of the Lloyds Banking Group that is or was an originator of Loans acquired by the Seller have interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Ombudsman, then a Loan, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the LLP. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions not binding on other courts.

The Seller has given or, as applicable, will give warranties to the LLP and the Security Trustee in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be remedied, then the Seller will be required to repurchase or procure the repurchase of such Loan and its Related Security from the LLP.

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (Directive 2008/48/EC, the **Consumer Credit Directive**), which provides that, subject to exemptions, loans from €200 up to €75,000 between credit providers and consumers will be regulated. This directive will repeal and replace the first consumer credit directive on, and requires Member States to implement the Consumer Credit Directive by, measures coming into force by, 11 June 2010.

Loans secured by a land mortgage (or in Scotland, standard security) are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 including, among other things, an assessment of the regulation of early repayment charges, pre-contract disclosure and interest rate restrictions. The European Commission has stated that, in its view, it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom's implementation of the Consumer Credit Directive are finalised, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White

Paper process would have on the Loans, the Seller, the Issuer, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or on the ability of the LLP to make payments in full on the Covered Bond Guarantee when due.

### **Distance Marketing**

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the lender and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the United Kingdom, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the fourteenth day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels a credit agreement under these regulations then:

- the borrower is liable to repay the principal, and any other sums paid by the lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the lender receiving notice of cancellation;
- the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- any security provided in relation to the contract is to be treated as never having had effect.

### **Unfair Terms in Consumer Contracts Regulations 1994 and 1999**

In the UK, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the **1999 Regulations**), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the **UTCCR**), apply to agreements made on or after 1 July 1995 and affect all or almost all of the Loans. These provide that:

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or, in Scotland, interdict) a business from relying on unfair terms.

The UTCCR will not generally affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off may adversely affect the realisable value of the Loans in the Portfolio and accordingly the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them, most recently in November 2009. Generally, the FSA is responsible for enforcement of the UTCCR in Regulated Mortgage Contracts under the FSMA originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example



by an early repayment charge that is considered to be a penalty, the term is likely to be regarded as unfair under the UTCCR unless the lender (i) notifies the affected borrower in writing at least 30 days before the rate change and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change without paying the early repayment charge. The Seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the Loans or its business. The guidance note has been withdrawn from the OFT website but may remain in effect as the OFT's view and a factor that the FSA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when the borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK's Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer; and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have a material adverse effect on Issuer, the LLP, the Servicer, the Security Trustee and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio, or any part thereof, in a timely manner or the realisable value of the Portfolio, or any part thereof, and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

### **Unfair Commercial Practices Directive 2005**

In May 2005, the European Parliament and the Council adopted Directive 2005/29/EC on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the directive. This directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive required Member States to implement the Directive by measures coming into force by 12 December 2007. The United Kingdom has implemented the directive by Consumer Protection from Unfair Trading Regulation 2008, which came into force on 26 May 2008. In addition, the FSA has taken the

Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the United Kingdom implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans and accordingly on the ability of the Issuer to make Payments to Covered Bondholders.

#### **Pre-Action Protocol for mortgage possession cases**

A new protocol for mortgage possession cases in England and Wales came into force on 19 November 2008 and sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium may be subject to the wishes of the relevant borrower and may not apply in cases of fraud. The protocol is addressed to residential mortgage lenders and may have more adverse effect in markets experiencing above average levels of possession claims.

#### **Financial Ombudsman Service**

Under the FSMA, the Ombudsman is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the CML Code occurring before N(M) may be dealt with by the Ombudsman. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to the borrower, it is not possible to predict how any future decision of the Ombudsman would affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

#### **General**

No assurance can be given that additional regulations or guidance from the FSA, the Ombudsman, the OFT or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Loans, the Seller, the LLP, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the ability of the LLP to dispose of the Portfolio or any part thereof in a timely manner and/or the realisable value of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, each Member State of the European Economic Area is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-European Union countries and certain dependent and associated territories have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of or in respect of tax, were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved amendments to this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above. **European Monetary Union**

If the UK joins the European Monetary Union prior to the maturity of the Covered Bonds, there is no assurance that this would not adversely affect investors in the Covered Bonds.

It is possible that prior to the maturity of the Covered Bonds the UK may become a participating Member State and that the euro may become the lawful currency of the UK. In that event, (a) all amounts payable in respect of any Covered Bonds denominated in Sterling may become payable in euro; (b) the law may allow or require such Covered Bonds to be re-denominated into euro and additional measures to be taken in respect of such Covered Bonds; and (c) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect investors in the Covered Bonds.

### **Changes of law**

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law and, in relation to the Scottish Loans, Scots law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or Scots law or administrative practice in the UK after the date of this Prospectus.

### **UK regulated covered bond regime**

On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations. The RCB Regulations and the FSA's Regulated Covered Bonds Sourcebook (the **RCB Sourcebook**) impose certain new ongoing obligations and liabilities on both the Issuer and the LLP. In this regard, the LLP is required to (amongst other things), following the insolvency of the Issuer, make arrangements for the maintenance and administration of the Asset Pool such that certain asset capability and quality related requirements are met.

The new legislative framework for UK covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in Directive 85/11/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). The FSA will notify the European Commission of an issuer's inclusion in the register of issuers, a covered bond included in the register of regulated covered bonds and the status of the guarantee offered in respect of such covered bonds once the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made, any covered bonds issued under the Programme will not be UCITS compliant.

The FSA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers (however, pursuant to the RCB Regulations, a regulated covered bond may not be removed from the register of regulated covered bonds prior to the expiry of the whole period of validity of the relevant bond), directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such enforcement actions by the FSA may reduce the amounts available to pay Covered Bondholders.

A winding-up of the LLP, in particular prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice, may have an adverse effect on the ability of the Issuer to make payments under the Covered Bonds.

With respect to the risks referred to above, see also *Cashflows* and *Description of the UK Regulated Covered Bond Regime* below for further details.

### **Expenses of insolvency officeholders**

Under the RCB Regulations, following the realisation of any asset pool security and/or winding up of the LLP, certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of Secured Creditors in a winding-up and/or an administration of the LLP. Such costs and expenses include costs incurred by an insolvency officeholder (including an administrative receiver, liquidator or administrator) in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges). This is a departure from the general position under English law which provides that in general the expenses of any administration or winding up rank ahead of unsecured debts and the claims of any floating charge-holder, but not ahead of the claims of any fixed charge-holder.

It is intended that the LLP should be a bankruptcy-remote entity and a provision has been included in the Deed of Charge such that, in certain post-enforcement scenarios, each Secured Creditor agrees in effect that (amongst other things) if it receives certain subordinated amounts in respect of any secured liabilities owed to it other than in accordance with the Post-Enforcement Priorities of Payment (referred to under *Cashflows* below) then such amounts will be held on trust for the Security Trustee and paid over to the Security Trustee immediately upon receipt so that such amounts may be applied in accordance with that priority of payments. Notwithstanding such provision there is a risk that, in certain circumstances, the relevant provisions of the RCB Regulations will result in a reduction in the amounts available to pay Covered Bondholders. In particular, it is not possible to bind third parties (such as HM Revenue & Customs) in relation to such subordination provisions.

See also the investment consideration described above under *Liquidation expenses*.

### **Insolvency Act 2000**

Significant changes to the UK insolvency regime have been enacted since 2000, including the Insolvency Act 2000, the relevant provisions of which came into force on 1 January 2003. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions of the Insolvency Act 2000 do not expressly state that they apply to limited liability partnerships (such as the LLP). Prior to 1 October 2005, there was some doubt as to whether the moratorium provisions of the Insolvency Act applied to limited liability partnerships (such as the LLP). However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

A "small" company is defined as one which satisfies two or more of the following criteria: (a) its turnover is not more than £6.5 million, (b) its balance sheet total is not more than £3.26 million and (c) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP will not, at any given time, be determined to be a "small" company. The UK Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Business, Enterprise and Regulatory Reform) may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Covered Bondholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is

expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Innovation & Skills may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions against or in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

### **English law security and insolvency considerations**

The LLP will enter into the Deed of Charge pursuant to which it will grant the Security in respect its obligations under the Covered Bond Guarantee (as to which, see *Transaction Documents – Deed of Charge*). In certain circumstances, including the occurrence of certain insolvency events in respect of the LLP, the ability to realise the Security may be delayed and/or the value of the security impaired. While the transaction structure is designed to minimise the likelihood of the LLP becoming insolvent, there can be no assurance that the LLP will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including English insolvency laws) and, if appropriate, Scottish insolvency laws).

A number of cases are pending in the US bankruptcy courts that assert the invalidity of contractual subordination provisions, based upon both principles of US bankruptcy law and the theory that the provision constitutes a forfeiture or penalty. If a creditor of the LLP becomes subject to insolvency proceedings in the US (such as a swap counterparty), and it is owed a payment by the LLP, a question arises as to whether the bankrupt creditor or any insolvency official appointed in respect of that creditor could seek to challenge the contractual subordination provisions in the English law governed transaction documents. The outcome of the cases remains unclear at this stage, but it should be noted that decisions of the English courts have been supportive of the enforceability of contractual subordination provisions.

In addition, it should be noted that, to the extent that the assets of the LLP are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the LLP in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the LLP has any other such creditors at any time. There can be no assurance that the Covered Bondholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

Pursuant to the modifications made by the RCB Regulations to (amongst other things) the Insolvency Act 1986, the provisions set out above in respect of section 176A will not apply with respect to the LLP and its floating charge assets.

### **Basel Committee changes to the framework applied to risk weighted assets may result in changes to the risk-weighting of the Notes**

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (the **Framework**). The Framework is not self-implementing and, accordingly, the implementation measures and dates in participating countries are dependant on the relevant national implementation process in those countries.

In July 2009, the Basel Committee finalised certain revisions to the Framework, including changes intended to enhance certain securitisation requirements (e.g. increased risk weights for "resecuritisation" exposures). In addition, the European Parliament has approved certain amendments to the Capital Requirements Directive 2006/49/EC (the **CRD**) (including investment restrictions and due diligence requirements in respect of securitisation exposures) and the European Commission has put forward further securitisation related amendments to the European Parliament and the Council of Ministers for consideration (including increased capital charges for relevant trading book exposures and for resecuritisation exposures). As and when implemented, the Framework (and any relevant changes to it or to any relevant implementing measures) may affect the risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the implications for them of the application of the Framework and any relevant implementing measures.

### **Covered Bonds where denominations involve integral multiples: definitive Covered Bonds**

In the case of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that Covered Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Covered Bondholder who, as a result of trading such amounts, holds a principal amount which (after deducting integral multiples of such minimum Specified Denomination) is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, may not receive a definitive Covered Bond in respect of such holding (should definitive Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds such that it holds an amount equal to one or more Specified Denominations.

If definitive Covered Bonds are issued, Covered Bondholders should be aware that definitive Covered Bonds that have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Pensions Act 2004**

Under the Pensions Act 2004 a person that is "connected with" or an "associate" of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. As the LLP is a member of the Lloyds Banking Group, it may be treated as "connected to" an employer under an occupational pension scheme which is within the Lloyds Banking Group.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act and either (A), the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due or (B), in the opinion of the UK Pensions Regulator it has detrimentally affected in a material way the likelihood of accrued scheme benefits being received. A contribution notice can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

A financial support direction could be served on the LLP where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is broadly less than 50 per cent. of the pension scheme's deficit calculated on an annuity buy-out basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

If a contribution notice or financial support direction were to be served on the LLP this could adversely affect the interests of the Covered Bondholders.

### **Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Covered Bonds and the LLP will make any payments under the Covered Bond Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit other than the Specified Currency (the **Investor's Currency**). These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without receipts, interest coupons and/or talons attached, or registered form, without receipts, interest coupons and/or talons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S and Registered Covered Bonds may be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A or Section 4(2) under the Securities Act.

### Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be initially issued in the form of a temporary global covered bond without receipts and interest coupons attached (a **Temporary Global Covered Bond**) which will:

- (i) if the Bearer Global Covered Bonds (as defined below) are issued in new global covered bond (**NGCB**) form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and
- (ii) if the Bearer Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the issue date of the relevant Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bearer Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation at the specified office of the Principal Paying Agent of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not issued in NGCB form) only to the extent that certification (in a form to be provided by Euroclear and/or Clearstream, Luxembourg) to the effect that the beneficial owners of interests in such Bearer Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a permanent global covered bond without receipts and interest coupons attached (a **Permanent Global Covered Bond** and, together with the Temporary Global Covered Bonds, the **Bearer Global Covered Bonds** and each a **Bearer Global Covered Bond**) of the same Series or (b) for Bearer Definitive Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of Bearer Definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of non-U.S. beneficial ownership as described above unless such certification has already been given. Purchasers in the United States and certain U.S. persons will not be able to receive Bearer Definitive Covered Bonds or interests in the Permanent Global Covered Bond. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or for Bearer Definitive Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender at the specified office of the Principal Paying Agent (as the case may be) of the Permanent Global Covered Bond (if the Permanent Global Covered Bond is not issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (a) provided the Covered Bonds has only one Specified Denomination, or has multiple Specified Denominations that are all integral multiples of the minimum Specified Denomination not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) to the Principal Paying Agent as described therein or (b) upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system

is available. The Issuer will promptly give notice to Covered Bondholders of each Series of Bearer Global Covered Bonds in accordance with Condition 13 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Covered Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Bearer Global Covered Bonds, Bearer Definitive Covered Bonds and any Coupons, Talons or Receipts attached thereto will be issued pursuant to the Agency Agreement.

The following legend will appear on all Bearer Covered Bonds that have an original maturity of more than one year and on all receipts and interest coupons relating to such Bearer Covered Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale or other disposition in respect of such Bearer Covered Bonds, receipts or interest coupons.

Covered Bonds which are represented by a Bearer Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

### **Registered Covered Bonds**

The Registered Covered Bonds of each Tranche offered and sold in reliance on Regulation S will initially be represented by a global covered bond in registered form (a **Regulation S Global Covered Bond**). Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Covered Bonds, beneficial interests in a Regulation S Global Covered Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Registered Covered Bonds*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg, and such Regulation S Global Covered Bond will bear a legend regarding such restrictions on transfer (see *Subscription and Sale and Transfer and Selling Restrictions*).

The Registered Covered Bonds of each Tranche offered and sold in the United States or to U.S. persons will only be offered and sold in private transactions to QIBs who agree to purchase the Covered Bonds for their own account and not with a view to the distribution thereof.

The Registered Covered Bonds of each Tranche sold to QIBs will be represented by a global covered bond in registered form (a **Rule 144A Global Covered Bond** and, together with a Regulation S Global Covered Bond, the **Registered Global Covered Bonds**).

Registered Global Covered Bonds will either (i) be deposited with a custodian for DTC, and registered in the name of DTC or its nominee or (ii) be deposited with the Common Depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. In the case of a Regulation S Global Covered Bond registered in the name of a nominee of DTC, prior to the end of the distribution compliance period (as defined in Regulation S) applicable to the Covered Bonds represented by such Regulation S Global Covered Bond, interests in such Regulation S Global Covered Bond may only be held through the accounts of Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Covered Bonds in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register on the Relevant Record Date (as defined in Condition 5.4 (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, the LLP, the Bond Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the



relevant Record Date (as defined in Condition 5.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) in the case of a Registered Global Covered Bond registered in the name of DTC or its nominee, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Covered Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act or (b) in the case of a Registered Global Covered Bond registered in the name of the Common Depository or its nominee, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Covered Bondholders of each Series of Registered Global Covered Bonds in accordance with Condition 13 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any registered holder of an interest in such Registered Global Covered Bond) or the Bond Trustee may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Definitive Rule 144A Covered Bonds will be issued only in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

### **Transfer of Interests**

Interests in a Rule 144A Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interests in a Regulation S Global Covered Bond representing the same Series and Tranche of Covered Bonds and vice versa. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *Subscription and Sale and Transfer and Selling Restrictions*.**

### **General**

Pursuant to the Agency Agreement (as defined under *Terms and Conditions of the Covered Bonds*), the Principal Paying Agent shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS number assigned to Covered Bonds of any other Tranche of the same Series until at least the Exchange Date applicable to the Covered Bonds of such further Tranche.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer, or the LLP unless the Bond Trustee or, as the case may be, the Security Trustee, having become so bound to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.*

Final Terms dated [Date]

**Lloyds TSB Bank plc**

**Issue of [Regulated][Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]**

**irrevocably and unconditionally guaranteed as to payment of principal and interest by  
Lloyds TSB Covered Bonds LLP  
under the €15 billion  
Global Covered Bond Programme**

The Programme has been registered and notice of these Covered Bonds has been made, under the Regulated Covered Bonds Regulations 2008 (SI 2008/346).

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or the relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the relevant Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

### PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated [●] [and the supplemental Prospectus dated [date]] 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 Covered Bonds 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, the LLP and the offer of the Covered Bonds 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 at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the Final Terms of the Covered Bonds 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 [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and are attached hereto. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectus(es) dated [date] [and] [date]]. The Prospectuses [and the supplemental Prospectus(es)] are available for viewing at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.

*[The following alternative language applies if the Covered Bonds are to be issued pursuant to Rule 144A.]*

[THE COVERED BONDS REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE COVERED BONDS THAT ARE REPRESENTED BY A RESTRICTED GLOBAL CERTIFICATE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE COVERED BONDS.]

*[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: Lloyds TSB Bank plc
- (ii) LLP: Lloyds TSB Covered Bonds LLP
2. [(i)] Series Number: [●]
- (ii) [Tranche Number: [●]]
- (If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible).]*
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Covered Bonds admitted to trading: [●]
- (i) [Series: [●]]
- (ii) [Tranche: [●]]
5. Issue Price: [●] per cent. of the aggregate nominal amount [plus accrued interest from [insert date] (if applicable)]
6. (i) Specified Denominations: *[(N.B. Where multiple denominations above €50,000 or equivalent are being used, the following sample wording should be followed: €50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Covered Bonds in definitive form will be issued with a denomination above [€99,000].)]*
- (in case of Registered Covered Bonds, this means the minimum integral amount in which transfers can be made)*
- (N.B. If an issue of Covered Bonds is (i) NOT admitted to trading on a regulated market within the European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the [€50,000] minimum*

- denomination is not required.)*
- (ii) Calculation Amount: *[●] (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations.)*
7. (i) Issue Date: *[●]*
- (ii) Interest Commencement Date: *[●][specify/Issue Date/Not Applicable]*
- (N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)*
8. (i) Final Maturity Date: *[Fixed rate – specify date/ Floating rate – Interest Payment Date falling in or nearest to [specify month and year][or such earlier Interest Payment Date on which the Issuer serves a Redemption Notice on the Bond Trustee.]]*
- [For the purposes of this Final Terms, Redemption Notice means such notice served on the Bond Trustee on a day falling not less than two London Business Days prior to the relevant Interest Payment Date on which the Issuer wishes to redeem the Series [●] Covered Bonds.]*
- (ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: *[Applicable/Not Applicable]*
- [Fixed rate – specify date/ Floating rate - Interest Payment Date falling in or nearest to [specify month and year, in each case falling one year after the Final Maturity Date][or, if a Redemption Notice has been served on the Bond Trustee, the Interest Payment Date falling twelve calendar months after the Interest Payment Date specified as the Final Maturity Date in the Redemption Notice]]*
- (iii) *(N.B. Care must be taken to ensure that if the Covered Bonds are Index Linked or Equity Linked or otherwise involve a computation, in any case by reference to one or more Valuation Dates or Averaging Dates, as the case may be, which may be postponed pursuant to the Terms and Conditions of such Covered Bonds, the Maturity Date is likewise postponed and cannot occur prior to an acceptable period before the last occurring Valuation Date or the Final Averaging Date, as the case may be.)*
- (N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Due for Payment Date unless otherwise agreed with the relevant Dealer and the Bond Trustee.)*
- (N.B. Hard Bullet Covered Bonds are not issued with an Extended Due for Payment Date.)*
9. Interest Basis: *[● per cent. Fixed Rate]*
- [[specify reference rate] +/- ● per cent. Floating Rate]*
- [Zero Coupon]*
- [Index Linked Interest]*
- [Equity Linked Interest]*

[Currency Linked Interest]  
 [Credit Linked Interest]  
 [Dual Currency Linked Interest]  
 [Other (specify)] (further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Equity Linked Redemption]  
 [Currency Linked Redemption]  
 [Dual Currency Linked Redemption]  
 [Instalment]  
 [Partly Paid]  
 [Other (specify)]  
*[N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply. This pro-forma has been annotated to indicate where the key additional requirements of Annex XII are dealt with.]*
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Covered Bonds into another interest or redemption/payment basis]*
12. Put/Call Options: [Investor Put Option]  
 [Issuer Call Option]  
 [Not Applicable]  
 [(further particulars specified below)]
13. (i) Status of the Covered Bonds: Senior, unsecured  
 (ii) Status of Covered Bond Guarantee: Senior, secured  
 (iii) [Date [Board] approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: [●] [and [●], respectively]  
*(N.B. Only relevant where Board (or similar) authorization is required for the particular Tranche of Covered Bonds or related Covered Bond Guarantee)*
14. Method of distribution: [Syndicated/Non-syndicated]

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

15. **Fixed Rate Covered Bond 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 Payment Date(s): [●] [[in each year up to and including the Final Maturity Date or the Extended Due for Payment Date, if applicable]/[specify other]]
- (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (iv) Business Day(s): [●]  
 Additional Business Centre(s): [●]
- (v) Fixed Coupon Amount[(s)]: [●] per Calculation Amount

- (vi) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (vii) Day Count Fraction: [●] [adjusted/not adjusted] *(Day Count fraction should be Actual/Actual ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless otherwise agreed)*
- (viii) 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)*
- (ix) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [Not Applicable/give details]
16. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate relevance rate for covered bonds denominated in euro)*
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●] *[Specify Specified Interest Periods if no Specified Interest Payment Dates are set]*
- (iii) First Interest Payment Date: [●]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (v) Business Centre(s): [●]  
Additional Business Centre(s): [●]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent): [●]
- (viii) Screen Rate Determination:
- Reference Rate: [●] *(Either LIBOR, EURIBOR or other. If other, provide additional information, including amendment to fallback provisions in the Agency Agreement)*
  - Interest Determination Date(s): [●] *[TARGET2/City] Business Days in [specify City] prior to [the first day] in each Interest Accrual Period/each Interest Payment Date*  
  
*N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable*
  - Relevant Screen Page: [●]
- (ix) ISDA Determination:
- Floating Rate Option: [●]

- Designated Maturity: [●]
  - Reset Date: [●]
  - (x) Margin(s): [+/–][●] per cent. per annum
  - (xi) Minimum Rate of Interest: [●] per cent. per annum
  - (xii) Maximum Rate of Interest: [●] per cent. per annum
  - (xiii) Day Count Fraction: [Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]  
(See Condition 4 (Interest and other Calculations) for alternatives)  
[adjusted/not adjusted]
  - (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions: [●]
17. **Zero Coupon Covered Bond Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) [Amortisation/Accrual] Yield: [●] per cent. per annum
  - (ii) Reference Price: [●]
  - (iii) Any other formula/basis of determining amount payable: [●]
  - (iv) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]  
[adjusted/not adjusted]
  - (v) Business Day(s): [●]  
Additional Business Centre(s): [●]
  - (vi) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 4.6 (Business Day, Business Day Convention, Day Count Fractions and other adjustments) and 6.7(b) (Early Redemption Amounts) apply/specify other]
18. **Index Linked Interest Covered Bond and other Variable Interest Covered Bond (Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds) Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub paragraphs of this paragraph)  
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
- (i) Index/Formula/currency(ies)/other variable: [give or annex details]

- (ii) Rate of Exchange/method of calculating Rate of Exchange: ☐/[Not Applicable]
- (iii) Party responsible for calculating the principal and/or interest due (if not the Principal Paying Agent): ☐/[Not Applicable]
- (iv) Relevant provisions for determining amount of principal and/or interest payable including the Final Redemption Amount, including fall-back provisions: ☐/[Not Applicable]
- (v) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: ☐/[Not Applicable]
- (vi) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: ☐/[Not Applicable]
- (vii) Interest Determination Date(s): ☐/[Not Applicable]
- (viii) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: ☐/[Not Applicable]
- (ix) Interest Period(s): ☐/[Not Applicable]
- (x) Specified Interest Payment Dates: ☐/[Not Applicable]
- (xi) Person at whose option Specified Currency(ies) is/are payable: ☐/[Not Applicable]
- (xii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*] [adjusted/not adjusted]
- (xiii) Business Centre(s): ☐
- (xiv) Minimum Rate of Interest: ☐ per cent. per annum
- (xv) Maximum Rate of Interest: ☐ per cent. per annum
- (xvi) Day Count Fraction: ☐
- (xvii) Other terms or special conditions: ☐

## PROVISIONS RELATING TO REDEMPTION

19. **Issuer Call Option** ☐[Applicable/Not Applicable]
- (If not applicable, delete the remaining sub paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): ☐
  - (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): ☐ per Calculation Amount
  - (iii) If redeemable in part:
    - (a) Minimum Redemption ☐



	Amount:	
	(b) Maximum Redemption Amount:	[●]
	(iv) Notice period:	[●]
20.	<b>Investor Put Option</b>	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub paragraphs of this paragraph)</i>
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
21.	<b>Final Redemption Amount</b>	[[●] per Calculation Amount/other/see Appendix] (Where Covered Bonds are Currency Linked Redemption Covered Bonds, Index Linked Redemption Covered Bonds, Equity Linked Redemption Covered Bonds or Credit Linked Covered Bonds specify "Not Applicable" and complete item [20, 25, 26 or 29] [above/below] as applicable)  [N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex II to the Prospectus Directive Regulation will apply. This proforma has been annotated to indicate where they key additional requirements of Annex XII are dealt with.]
22.	<b>Index Linked Redemption Covered Bonds</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Whether the Covered Bonds relate to a basket of indices or a single index, the identity of the relevant Index/Indices and details of the relevant index sponsors and whether such Index/Indices are a Multi-Exchange Index:	[Basket of Indices/Single Index]  [[Give or annex details]] [Details of each Index Sponsor]  Multi-Exchange Index [Yes/No]  [The X Percentage [applies/does not apply] in relation to such Index]  <i>(NB: Designated Multi-Exchange Indices only applies in relation to the Euro Stoxx Indices unless otherwise agreed)</i>
	(ii) Party responsible for making calculations pursuant to Condition [ ] (if not the Principal Paying Agent):	[●]
	(iii) Exchange(s):	[●]
	(iv) Related Exchange(s):	[[●]/All Exchanges]
	(v) Final Redemption Amount:	[Express per Calculation Amount]
	(vi) [Valuation Date/Averaging Dates]:	[●]
	[Adjustment provisions in the event of a Disrupted Day:	[Omission/Postponement/Modified Postponement] <i>(NB: only applicable where Averaging Dates are</i>

		<i>specified)]</i>
	[Reference Price:	[●]
(vii)	[Relevant Time/Valuation Time]:	[●]
(viii)	Strike Price:	[●]
(ix)	Multiplier for each Index comprising the basket:	<i>[Insert details/Not Applicable]</i>
(x)	Adjustments to Index:	<i>[Insert Details]</i>
(xi)	Trade Date:	[●]
(xii)	Correction of Index Levels:	Correction of Index Levels [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].  <i>(If Correction of Index Levels does not apply, delete the following sub-paragraph)</i>
(xiii)	[Correction Cut-Off Date:	[[●] Business Days prior to the Maturity Date/In relation to Averaging Dates other than the final Averaging Dates, [●] days after the relevant Averaging Date and in relation to the final Averaging Date, [●] Business Days prior to the Maturity Date]].
(xiv)	Other terms or special conditions:	[●]
23.	<b>Equity Linked Redemption Covered Bonds:</b>	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Whether the Covered Bonds relate to a basket of equity securities or a single equity security and the identity of the relevant issuer(s) of the Underlying Equity/Equities:	[Basket of Underlying Equities/Single Underlying Equity <i>[Give or annex details of each Underlying Equity and each Equity Issuer]</i>
(ii)	Whether redemption of the Covered Bonds will be by (a) Cash Settlement or (b) Physical Delivery or (c) Cash Settlement and/or Physical Delivery:	[Cash Settlement/Physical Delivery/Cash Settlement and or Physical Delivery] <i>(If Cash Settlement and/or Physical Delivery specified, specify details for determining in what circumstances Cash Settlement or Physical Delivery will apply)</i>
(iii)	Party responsible for making calculations pursuant to Condition [ ] (if not the Principal Paying Agent):	[●]
(iv)	Exchange:	[●]
(v)	Related Exchange(s):	[[●]/All Exchanges]
(vi)	Potential Adjustment Events:	[Applicable/Not Applicable]
(vii)	De-listing, Merger Event, Nationalisation and Insolvency:	[Applicable/Not Applicable]
(viii)	Tender Offer:	[Applicable/Not Applicable]
(ix)	Correction of Underlying Equity Prices:	Correction of Underlying Equity Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].  <i>(If Correction of Underlying Equity Prices does not apply, delete the following sub-paragraph)</i>

	[Correction Cut-Off Date:	[[●] Business Days prior to the Maturity Date.]
(x)	Potential Adjustment Events/Physical Delivery:	[Insert details]
(xi)	Final Redemption Amount:	[Express per Calculation Amount]
	Valuation Date:	[●]
	Reference Price:	[●] [see (x) above]
(xii)	Valuation Time:	[see (x) above]
(xiii)	Strike Price:	[●]
(xiv)	Exchange Rate:	[Applicable/Not Applicable] [Insert details]
(xv)	Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition [ ]):	[Insert details/Not Applicable]
(xvi)	Trade Date:	[●]
(xvii)	Relevant Assets:	[●] (further particulars specified below) <i>[Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]</i>
(xviii)	Asset Amount(s):	[●] <i>[Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]</i>
(xix)	Cut-off Date:	[●] <i>[Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]</i>
(xx)	Final Date:	[●]
(xxi)	Delivery provisions for Asset Amount(s) (including details of who is to make such delivery) if different from Terms and Conditions:	[●] <i>[Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]</i>
(xxii)	Other terms or special conditions:	[●]
(xxiii)	Failure to Deliver due to Illiquidity:	[Applicable/Not Applicable] <i>(NB: Only applicable to certain types of Equity Linked Redemption Covered Bonds)</i>
24.	<b>Relevant Assets:</b>	[Applicable/Not Applicable]
(i)	Type and class of Relevant Asset(s):	[●]
(ii)	Legislation under which the Relevant Asset(s) has/have been created:	[●]
(iii)	Form of the Relevant Asset(s):	[●]
(iv)	Currency of the Relevant Asset(s):	[●]
(v)	Rights attaching to the Relevant Asset(s):	[●]  <i>(Need to include information relating to dividend rights, voting rights, pre-emption rights in offers for subscription of Relevant Asset(s) of the same class, rights to share in the issuer of the Relevant Asset's/Assets' profits, rights to share in any surplus in the event of liquidation, redemption provisions and conversion provisions, in each case to the extent</i>

- applicable)*
- (vi) Listing of the Relevant Asset(s): ☐ (specify)/None]
- (vii) Description of any restrictions on the free transferability of the Relevant Asset(s): ☐
25. **Additional Disruption Events:** [Applicable/Not Applicable]
- [Additional Disruption Events are only applicable to certain types of Index Linked Redemption Covered Bonds or Equity Linked Redemption Covered Bonds]*
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- [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:]*
- [Change in Law]
- [Hedging Disruption]
- [Increased Cost of Hedging]
- [Increased Cost of Stock Borrow]
- [Insolvency Filing]
- (N.B. Only applicable in the case of Equity Linked Redemption Covered Bonds)*
- [Loss of Stock Borrow]
26. **Currency Linked Covered Bonds:** [Applicable/Not Applicable]
- [Provisions regarding calculations will be set out in the Final Terms]*
27. **Dual Currency Linked Covered Bonds:** [Applicable/Not Applicable]
- [Provisions regarding calculating will be set out in the Final Terms]*
28. **Early Redemption Amount:**
- Early Redemption Amount(s) payable on redemption for (a) taxation reasons or on event of default or other early redemption (b) in the case of Index Linked Redemption Covered Bonds, following an Index Adjustment Event, as set out in these Final Terms or (c) in the case of Equity Linked Redemption Covered Bonds, following certain corporate events as set out in these Final Terms or (d) in the case of Index Linked Redemption Covered Bonds or Equity Linked Redemption Covered Bonds, following an Additional Disruption Event (if applicable) as set out in these Final Terms, and/or the method of calculating the same (if required or if different from that set out in the Conditions): ☐ per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

29. **Form of Covered Bonds:** [Bearer Covered Bonds:  
[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds on [●] days' notice/at any time/only upon an Exchange Event]  
[Temporary Global Covered Bond exchangeable for Definitive Covered Bonds on [●] days' notice]  
[Permanent Global Covered Bond exchangeable for Definitive Covered Bonds on [●] days' notice/at any time/only upon an Exchange Event]  
*(N.B. The exchange upon notice/at any time should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].")*  
[Registered Covered Bonds - [Restricted/Unrestricted] Global Certificate[s]] - [DTC]/[Euroclear/Clearstream]  
[Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of the common depository for [DTC or its nominee/Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of [DTC or its nominee/the common depository for Euroclear and Clearstream, Luxembourg]  
*[(N.B. Where multiple denominations above €50,000 or equivalent are being used, the following sample wording should be followed: €50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Covered Bonds in definitive form will be issued with a denomination above [€99,000].)]*
30. **New Global Covered Bond:** [Yes][No]
31. **Financial Centre(s) or other special provisions relating to payment dates:** [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 16(iv) and 18(xiii) relate]
32. **Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):** [Yes/No. If yes, give details]
33. **Details relating to Partly Paid Covered Bonds: 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 Bank to forfeit the Covered Bonds and interest due on late payment:** [Not Applicable/give details]

34. Details relating to Instalment Covered Bonds: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
35. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to these Final Terms apply]
36. Consolidation provisions: [Not Applicable/The provisions in [Condition [ ]] [annexed to these Final Terms] apply]
37. Additional U.S. Federal Tax Considerations: [Not Applicable/give details]
38. 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

39. If syndicated, names of Managers: [Not Applicable/give names]
40. Date of Subscription Agreement: [●]
- (The above is only relevant if the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies)*
41. Stabilising Manager(s) (if any): [Not Applicable/give names]
42. If non-syndicated, name of Dealer: [Not Applicable/give name]
43. U.S. Selling Restrictions: [Reg S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable]
44. Additional selling restrictions: [Not Applicable/give details]
45. Additional United States Tax Considerations: [Not Applicable/give details]

## [LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required for issue and admission to trading of the Covered Bonds described herein pursuant to the €15,000,000,000 Global Covered Bond Programme of Lloyds TSB Bank plc.

## RESPONSIBILITY

Each of the Issuer and the LLP accepts responsibility for the information contained in these Final Terms.

Each of the Issuer and the LLP accept responsibility for the information in these Final Terms. [[Relevant third party information, for example, in compliance with Annex XII to the Prospectus Directive in relation to an index or its components] has been extracted from [Source]. Each of the Issuer and the LLP confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.] [Delete if not applicable]

Signed on behalf of Lloyds TSB Bank plc

Signed on behalf of Lloyds TSB Covered Bonds LLP

By:

*Duly authorised*

By:

*Duly authorised*

## PART B — OTHER INFORMATION

### 1. LISTING

- (i) Listing: [London/Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [*specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's regulated Market or the Regulated Market of the Irish Stock Exchange)*] and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on [*specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange's regulated market or the Regulated Market of the Irish Stock Exchange)*] and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)] with effect from [ ].]  
[Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

- Ratings: [The Covered Bonds to be issued have been rated:  
[Fitch: [●]]  
[Moody's: [●]]  
[[Other]: [●]]]  
*(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. COVERED BOND SWAP:

- Covered Bond Swap Provider: [Include name and address of Covered Bond Swap Provider]
- Nature of Covered Bond Swap: [*Forward Starting/Non-Forward Starting*]

### 4. NOTIFICATION

*The United Kingdom Financial Services 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.]*

### 5. [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 and Transfer and Selling Restrictions"], so far as the Issuer and LLP are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer."

**6. [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 "Use of Proceeds" provision [●] 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.)*

*(If the Covered Bonds 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) below where disclosure is included at (i) above).*

(iii) [Estimated total expenses: [●]]

*[Include breakdown of expenses.]*

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

**7. [Fixed Rate Covered Bonds 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.]*

**8. [Floating Rate Covered Bonds only — HISTORIC INTEREST RATES]**

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

**9. [Index Linked Redemption, Equity Linked Redemption, Currency Linked or other Variable-Interest Covered Bonds only — PERFORMANCE OF INDEX/FORMULA/CURRENCY(IES)/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING]**

*Need to include details of where past and future performance and volatility of the index/formula/currency(ies)/Underlying Equities/currencies/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. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]*

**10. [Dual Currency Linked Covered Bonds 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.]

**11. OPERATIONAL INFORMATION**

ISIN Code: [●]

CUSIP: [●]

Common Code: [●]



Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (including the Depository Trust Company) and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and address(es)]]

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 Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds 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 Covered Bonds must be issued in NGCB form]

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of the Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds constituted by a trust deed dated 20 October 2008 (as supplemented by a first supplemental trust deed on 18 December 2008 and by a second supplemental trust deed on 11 January 2010 and as modified and/or supplemented and/or restated as at the date of issue of the Covered Bonds (the **Issue Date**), the **Trust Deed**) between Lloyds TSB Bank plc (the **Issuer**), Lloyds TSB Covered Bonds LLP (the **LLP**) and BNY Corporate Trustee Services Limited as the Bond Trustee and the Security Trustee (the **Bond Trustee** and the **Security Trustee**), which expressions shall include all persons for the time being the bond trustee(s), or security trustee (s) respectively under the Trust Deed and the Deed of Charge (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes (amongst other things) the form of the Bearer Covered Bonds, Receipts, Coupons and Talons referred to below. An Agency Agreement dated 20 October 2008 (as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) has been entered into in relation to the Covered Bonds between the Issuer, the LLP, the Bond Trustee, the Security Trustee, The Bank of New York Mellon Luxembourg S.A. as registrar and The Bank of New York Mellon as principal paying agent and the other agents named in it. The principal agent, the paying agents, the registrar, the exchange agents, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Principal Paying Agent**, the **Paying Agents** (which expression shall, where the context so permits, include the Principal Paying Agent), the **Registrar**, the **Exchange Agents**, the **Transfer Agents** (which expression shall, where the context so permits, include the Registrar) and the **Calculation Agent(s)**. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Principal Paying Agent.

Save as provided for in Conditions 9 (Events of Default, Acceleration and Enforcement) and 14 (Meetings of Covered Bondholders, Modification and Waiver), references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (a) any global covered bond representing Covered Bonds (a **Global Covered Bond**);
- (b) in relation to any Covered Bonds represented by a Global Covered Bond, units of each Specified Denomination in the Specified Currency;
- (c) any Definitive Covered Bonds in bearer form (Bearer Definitive Covered Bonds) issued in exchange for a Global Covered Bond in bearer form; and
- (d) any Definitive Covered Bonds in registered form (Registered Definitive Covered Bonds and, together with Bearer Definitive Covered Bonds, Definitive Covered Bonds) (whether or not issued in exchange for a Global Covered Bond in registered form).

The Final Terms for the Covered Bonds (or the relevant provisions thereof) are endorsed on or attached to this Covered Bond and supplements these Terms and Conditions (the **Terms and Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of the Covered Bonds. References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) endorsed on or attached to this Covered Bond.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the **Covered Bondholders**, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the receipts for the payment of instalments of principal (other than the final instalment) attached on issue to Bearer Definitive Covered Bonds repayable in instalments (the **Receipts**) (the **Receiptholders**) and the holders of the interest coupons in respect of Bearer Definitive Covered

Bonds (the **Coupons**) (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the talons for further Coupons in respect of interest-bearing Bearer Definitive Covered Bonds (the **Talons**)), and for the holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The LLP has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of the Guaranteed Amounts in respect of the Covered Bonds as and when the same shall become Due for Payment, but only after service of a Notice to Pay on the LLP following service of an Issuer Acceleration Notice on the Issuer (after the occurrence of an Issuer Event of Default) or service of an LLP Acceleration Notice on the LLP (after the occurrence of an LLP Event of Default).

The security for the obligations of the LLP under the Covered Bond Guarantee and the other Transaction Documents to which it is a party has been created in and pursuant to, and on the terms set out in, a deed of charge (such deed of charge as amended and/or supplemented and/or restated from time to time, the **Deed of Charge**) dated on or about the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and certain other Secured Creditors.

These Terms and Conditions include summaries of, and are subject to, the provisions of the Trust Deed, the Deed of Charge and the Agency Agreement.

Copies of the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement (as defined below), the Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the office for the time being of the Principal Paying Agent being at 40th Floor, One Canada Square, London E14 5AL. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the registered office of the Issuer and at the office of the Principal Paying Agent. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Deed of Charge, the Master Definitions and Construction Agreement, the Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them and to have notice of each of the Final Terms relating to each other Series.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms and/or the master definitions and construction agreement made between the parties to the Transaction Documents on or about the Programme Date (as amended and/or supplemented and/or restated from time to time, the **Master Definitions and Construction Agreement**), a copy of each of which may be obtained as described above.

## **1. Form, Denomination and Title**

The Covered Bonds are in bearer form (each, a **Bearer Covered Bond**) or in registered form (each, a **Registered Covered Bond**) as specified in the applicable Final Terms and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and vice versa.

The Covered Bonds in this Series may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds, Index Linked Redemption Covered Bonds, Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Equity Linked Redemption Covered Bonds, Dual Currency Linked Covered Bonds, Currency Linked Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms. Prior to issuing this Series of Covered Bonds (if such Covered Bonds are not Fixed Rate Covered Bonds or Floating Rate Covered Bonds), the Issuer has obtained confirmation from each of the Rating Agencies that the Covered Bonds of this Series will have the same ratings as the ratings of the Covered Bonds of all Series then outstanding and that the ratings of the Covered

Bonds of all Series then outstanding will not be adversely affected or withdrawn as a result of the issuance of this Series of Covered Bonds.

The Issuer will not issue unlisted Covered Bonds without first agreeing certain conditions precedent to their issue with the Rating Agencies and will not issue Covered Bonds that are not principal-protected.

The Covered Bonds in this Series may be Instalment Covered Bonds, Partly Paid Covered Bonds or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Bearer Definitive Covered Bonds are issued with Receipts, unless they are not Instalment Covered Bonds in which case references to Receipts and Receiptholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depositary or common safe keeper (as the case may be) for, Euroclear Bank S.A./N.V. (**Euroclear**), Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or The Depository Trust Company (**DTC**) or its nominee, each person (other than Euroclear or Clearstream, Luxembourg or DTC) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or DTC as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including, without limitation, Euroclear's EUCLID or Clearstream's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified with the amount of such holding) shall be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts on such nominal amount of such Covered Bonds, and, in the case of DTC or its nominee, voting, giving consents and making requests, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer, the LLP, any Paying Agent, the Security Trustee and the Bond Trustee as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg and DTC or any other relevant clearing system, as the case may be.

References to Euroclear, Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

## **2. Transfers of Registered Covered Bonds**

### **(a) *Transfer of Registered Covered Bonds***

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Definitive Covered Bonds. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Definitive Covered Bonds. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Rule 144A Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or to such successor's nominee.

### **(b) *Transfers of Registered Covered Bonds in definitive form***

Subject as provided in Conditions 2(c) (*Registration of transfer upon partial redemption*), 2(d) *Costs of registration*, 2(e) (*Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. persons*) and 2(f) (*Transfers of interests in Rule 144A Covered Bonds*), upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part in the authorised denominations set out in the applicable Final Terms. In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing, and (ii) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent, and (b) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the Issuer, the Bond Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in the Agency Agreement).

Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Registered Definitive Covered Bond of a like aggregate nominal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) transferred.

In the case of the transfer of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will (in addition to the new Registered Definitive Covered Bond in respect of the nominal amount transferred) be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address specified by the transferor.

(c) *Registration of transfer upon partial redemption*

In the event of a partial redemption of Covered Bonds under Condition 6 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

(d) *Costs of registration*

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer, Registrar or Transfer Agent may require the payment of a sum sufficient to cover any stamp duty, taxes or any other governmental charge that may be imposed in relation to the registration.

(e) *Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. persons*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate with the consent of the Issuer (a **Transfer Certificate**), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Covered Bond or a holder of a beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, whereby such transferee may only take delivery through a Rule 144A Covered Bond; or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Prior to the end of the applicable Distribution Compliance Period beneficial interests in Regulation S Covered Bonds registered in the name of a nominee for DTC may only be held through the accounts of Euroclear and Clearstream, Luxembourg. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Covered Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) *Transfers of interests in Rule 144A Covered Bonds*

Transfers of Rule 144A Covered Bonds or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Covered Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Covered Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Covered Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Covered Bond, where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Rule 144A Covered Bonds, or upon specific request for removal of any United States securities law legend on Rule 144A Covered Bonds, the Registrar shall deliver only Rule 144A Covered Bonds or refuse to remove the legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

### **3. Status and Security**

#### **(a) *Status of the Covered Bonds***

The Covered Bonds and any relative Receipts and Coupons 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 present and future unsecured and unsubordinated obligations of the Issuer, other than any obligations preferred by mandatory provisions of applicable law.

#### **(b) *Status of the Covered Bond Guarantee***

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the LLP pursuant to a guarantee (the **Covered Bond Guarantee**) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts when the same shall become Due for Payment under the Covered Bonds or the Trust Deed until service of a Notice to Pay by the Bond Trustee on the Issuer and the LLP (which the Bond Trustee will be required to serve following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice by the Bond Trustee on the Issuer) or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice by the Bond Trustee on the LLP. The obligations of the LLP under the Covered Bond Guarantee are, subject as aforesaid, direct, unconditional and unsubordinated obligations of the LLP, which are secured as provided in the Deed of Charge.

Any payment made by the LLP under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Bond Trustee pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*)) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds, Receipts and Coupons respectively, except to the extent that such payment by the LLP has been declared void, voidable or otherwise recoverable and recovered from the Bond Trustee or the Covered Bondholders.

#### **(c) *Security***

As security for the LLP's obligations under the Covered Bond Guarantee and the other Transaction Documents to which it is a party, the LLP has granted fixed and floating security over all of its assets under the Deed of Charge in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors).

### **4. Interest and other Calculations**

#### **4.1. *Interest on Fixed Rate Covered Bonds***

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable, subject as provided in these Terms and Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date, or, if applicable, the Extended Due for Payment Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Interest Period (as defined in Condition 4.6 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Covered Bonds in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to: (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding (as defined in Condition 4.6 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) but subject to

Condition 4.5 (*Accrual of interest*)) of the Fixed Rate Covered Bonds represented by such Global Covered Bond; (or if they are Partly Paid Covered Bonds, the aggregate amount paid up) or (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount; and in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 4.6 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.6 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for each Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

#### 4.2. *Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds*

##### (a) Interest Payment Dates

Each Floating Rate Covered Bond and Variable Interest Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

##### (b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms.

##### (i) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) unless otherwise stated in the applicable Final Terms, the relevant Reset Date is the first day of that Interest Period.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.



Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Covered Bonds*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate(s) which appears or appear, as the case may be, on the Relevant Screen Page as at 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 plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

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

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms for a Floating Rate Covered Bond or a Variable Interest Covered Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms for a Floating Rate Covered Bond or a Variable Interest Covered Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Covered Bonds, and the Calculation Agent, in the case of Variable Interest Covered Bonds, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Variable Interest Covered Bonds, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding

(subject to Condition 4.5 (*Accrual of interest*)) of the Covered Bonds represented by such Global Covered Bond (or, if they are Partly Paid Covered Bonds, the aggregate amount paid up); or

- (ii) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond or a Variable Interest Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

- (e) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified in writing to the Issuer, the LLP, the Bond Trustee, the Registrar, the other Paying Agents, the Covered Bondholders and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day (as defined in Condition 4.6 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Bond Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds or Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 13 (*Notices*).

- (f) Determination or Calculation by Bond Trustee

If for any reason at any relevant time after the Issue Date, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Bond Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Bond Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Bond Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

- (g) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Principal Paying Agent, the Calculation Agent or the Bond Trustee shall (in the absence of wilful default, manifest error, negligence or fraud) be binding on the Issuer, the LLP, the Principal Paying Agent, the Registrar, the Calculation Agent, the

other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default, negligence or fraud) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Registrar, the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

- (h) Interest on Credit Linked Interest Covered Bonds, Index Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Interest Covered Bond, Dual Currency Linked Covered Bonds and Zero Coupon Covered Bonds

The rate or amount of interest in respect of Credit Linked Interest Covered Bonds shall be determined in the manner specified in the applicable Final Terms.

The rate or amount of interest in respect of Index Linked Interest Covered Bonds shall be determined in the manner specified in the applicable Final Terms.

The Rate of Interest for Equity Linked Interest Covered Bonds 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 in the applicable Final Terms.

The rate or amount of interest of Currency Linked Covered Bonds shall be determined in the manner specified in the applicable Final Terms.

In the case of Dual Currency Linked Covered Bonds where the rate of interest or amount of interest is determined by reference to an exchange rate, the rate or amount of interest shall be determined in the manner specified in the applicable Final Terms.

Where a Covered Bond the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Final Maturity Date and is not paid when due, the amount due and payable prior to the Final Maturity Date shall be the Early Redemption Amount of such Covered Bond.

4.3. *Interest on Partly-Paid Covered Bonds*

In the case of Partly-Paid Covered Bonds (other than Partly-Paid Covered Bonds which are Zero Coupon Covered Bonds), interest will accrue on the paid up nominal amount of such Covered Bonds or as otherwise specified in the applicable Final Terms.

4.4. *Interest following a Notice to Pay*

If a Notice to Pay is served on the LLP, the LLP shall, in accordance with the terms of the Trust Deed, pay Guaranteed Amounts corresponding to the amounts of interest described under Condition 4.1 (*Interest on Fixed Rate Covered Bonds*), 4.2 (*Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds*) or 4.3 (*Interest on Partly-Paid Covered Bonds*) (as the case may be) under the Covered Bond Guarantee in respect of the Covered Bonds on the Original Due for Payment Dates and, if applicable, the Extended Due for Payment Date.

4.5. *Accrual of interest*

Interest (if any) will cease to accrue on each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) on the due date for redemption thereof unless, upon due presentation thereof (where presentation is so required) payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event, interest will continue to accrue at the Rate of Interest in the manner provided in this Condition 4 to (but excluding) the Relevant Date (as defined in Condition 7).

4.6. *Business Day, Business Day Convention, Day Count Fractions and other adjustments*

- (a) In these Terms and Conditions, **Business Day** means:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and

are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or as otherwise specified in the applicable Final Terms or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto (the **TARGET2 System**) is open.

- (b) If a **Business Day Convention** is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:
  - (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds*), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, 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 (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
  - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
  - (iii) the **Modified Following Business Day Convention**, such Interest Payment 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 shall be brought forward to the immediately preceding Business Day; or
  - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
  - (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
    - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 4.6(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
    - (B) in the case of Covered Bonds where the Accrual Period is longer than one Determination Period, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
  - (ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and

- (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (viii) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30; or

- (ix) such other Day Count Fraction as may be specified in the applicable Final Terms.
- (d) **Determination Period** means each period from (and including) a Determination Date (as specified in the applicable Final Terms) to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- (e) **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (f) **Principal Amount Outstanding** means in respect of a Covered Bond on any day the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day.
- (g) If **adjusted** is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, as each such Interest Payment Date shall, where applicable, be adjusted in accordance with the Business Day Convention.
- (h) If **not adjusted** is specified in the applicable Final Terms against the Day Count Fraction, interest in respect of the relevant Interest Period shall be payable in arrear on the relevant Interest Payment Date and calculated from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date, but such Interest Payment Dates shall not be adjusted in accordance with any Business Day Convention.
- (i) **sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

#### 4.7. *Other Calculations*

Provisions relating to the determination, calculation and/or notification of any Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount shall be set out in Condition 6 (*Redemption and Purchase*) and/or in the applicable Final Terms.

## **5. Payments**

### **5.1. *Method of payment***

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and
- (b) payments in euro will be made 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.

In the case of Bearer Covered Bonds, payments in U.S. Dollars will be made by transfer to a U.S. Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 5 (*Payments*), means the United States of America, including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank. In no event will payment in respect of Bearer Covered Bonds be made by a cheque mailed to an address in the United States. All payments of interest in respect of Bearer Covered Bonds will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 7 (*Taxation*). References to Specified Currency will include any successor currency under applicable law.

### **5.2. *Presentation of Bearer Definitive Covered Bonds, Receipts and Coupons***

Payments of principal and interest (if any) will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender of Bearer Definitive Covered Bonds, Receipts or Coupons (or, in the case of part payment of any sum due, endorsement of the Bearer Definitive Covered Bond (or Coupon)), as the case may be, only at a specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments (if any) of principal other than the final instalment, will (subject as provided below) be made in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender (or, in the case of part of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in accordance with Condition 5.1 (*Method of payment*) only against presentation or surrender (or, in the case of part of any sum due, endorsement) of the Definitive Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Definitive Covered Bond to which it appertains. If any Bearer Definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be payable in accordance with Condition 5.1 (*Method of payment*) only against presentation and surrender (or, in the case of part payment of any sum, endorsement) of such Bearer Definitive Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the Bearer Definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP. On the date on which any Bearer Definitive Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect of them.

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would

otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon amounts in respect of any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable by the Issuer (in the absence of a Notice to Pay or an LLP Acceleration Notice) or by the LLP under the Covered Bond Guarantee (if a Notice to Pay or an LLP Acceleration Notice has been served) prior to its Final Maturity Date (or, as the case may be, Extended Due for Payment Date), all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Covered Bond, Variable Interest Covered Bond or Long Maturity Covered Bond in definitive bearer form, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond.

If the due date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against presentation and surrender of the relevant Bearer Definitive Covered Bond.

5.3. *Payments in respect of Bearer Global Covered Bonds*

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Bearer Definitive Covered Bonds and otherwise in the manner specified in the relevant Bearer Global Covered Bond against presentation or surrender, as the case may be, of such Bearer Global Covered Bond if the Bearer Global Covered Bond is not intended to be issued in NGCB form at the specified office of any Paying Agent outside the United States. On the occasion of each payment, (i) in the case of any Bearer Global Covered Bond which is not issued in NGCB form, a record of such payment made on such Bearer Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Covered Bond by the Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made and (ii) in the case of any Global Covered Bond which is issued in NGCB form, the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

No payments of principal, interest or other amounts due in respect of a Bearer Global Covered Bond will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

5.4. *Payments in respect of Registered Covered Bonds*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made in accordance with Condition 5.1 (*Method of payment*) by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Register**) at the close of business on the fifteenth business day (**business day** being for the purposes of this Condition 5.4 a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date (the **Record Date**). Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account, or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal



financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the Record Date at the holder's address shown in the Register on the Record Date and at the holder's risk. Upon application of the holder to the specified office of the Registrar not later than three business days after the Record Date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal in respect of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar (i) to an account specified in accordance with Condition 5.1 (*Method of payment*) identified to DTC by a participant in DTC in respect of its holding of such Covered Bonds, or (ii) to an account in the relevant Specified Currency of the Exchange Agent for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

#### 5.5. *General provisions applicable to payments*

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the obligations of the Issuer or the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in respect of Bearer Covered Bonds in U.S. Dollars will only be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Bearer Covered Bonds in the manner provided above when due;

- (b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

#### 5.6. *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation;
  - (ii) London; and
  - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre) or as otherwise specified in the applicable Final Terms or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

#### 5.7. *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds but excluding any amount of interest referred to therein;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.7 (*Early Redemption Amounts*));
- (g) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (h) any Excess Proceeds which may be payable by the Bond Trustee to the LLP in respect of the Covered Bonds.

Any reference in these Terms and Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## 5.8. Definitions

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

**Established Rate** means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

**Rate of Interest** means the rate of interest payable from time to time in respect of Fixed Rate Covered Bonds, Floating Rate Covered Bonds and Variable Interest Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms.

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

## 6. Redemption and Purchase

### 6.1. Final redemption

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond (unless it is an Index Linked Redemption Covered Bond or an Equity Linked Redemption Covered Bond, each of which will be finally redeemed in accordance with Conditions 6.12 (*Redemption of Index Linked Redemption Covered Bonds*) and 6.13 (*Redemption at the option of the Issuer (Issuer Call)*) respectively) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date.

Without prejudice to Condition 9 (*Events of Default, Acceleration and Enforcement*), if an Extended Due for Payment Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (in each case after the expiry of the grace period set out in Condition 9.1(a) (*Issuer Events of Default*)) and following service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date, the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a) (*LLP Events of Default*)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, then (subject as provided below) payment of the unpaid portion of the Final Redemption Amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above will be paid by the LLP to the extent it has sufficient moneys available under the Guarantee Priority of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13 (*Notices*)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and (in the case of Registered Covered Bonds) the Registrar as soon as reasonably practicable and in any event at least one Business Day prior to the date specified in (a) or (b) of the preceding paragraph (as appropriate) of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor shall any rights accrue to any of them by virtue thereof.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after service of a Notice to Pay or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a) (*LLP Events of Default*)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of each such Covered

Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the liabilities of the LLP under the Covered Bond Guarantee in connection with this Condition 6.1.

6.2. *Redemption for taxation reasons*

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the relevant Covered Bond is a Fixed Rate Covered Bond or a non-interest bearing Covered Bond) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond or a Variable Interest Covered Bond or any other interest bearing Covered Bond other than a Fixed Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest on the relevant Covered Bonds, that the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*). Covered Bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.7 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3. *Redemption at the option of the Issuer (Issuer Call)*

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than five nor more than 30 days' notice (or such other period of notice as may be specified in the applicable Final Terms, which in the case of Covered Bonds that clear through DTC should not be less than 30 days nor more than 60 days) to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of Registered Covered Bonds) and, in accordance with Condition 13 (*Notices*), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Issuer shall be bound to redeem the Covered Bonds on the date specified in the notice. In the event of a redemption of some only of the Covered Bonds, such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount (if any) as specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 (*Notices*) not less than 15 days (or such shorter period as may be specified in the applicable Final Terms) prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 (*Notices*) at least five days (or such shorter period as is specified in the applicable Final Terms) prior to the Selection Date.

6.4. *Redemption at the option of the Covered Bondholders (Investor Put)*

If an Investor Put is specified in the Final Terms (the **Investor Put**), then if and to the extent specified in the applicable Final Terms, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 13 (*Notices*), not less than 15 nor more than 30 days' (or such other notice period specified in the applicable Final Terms) notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms in whole (but not in part) such Covered Bond on the Optional Redemption Date

and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied where relevant, the provisions will be set out in the applicable Final Terms.

If the relevant Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of the relevant Covered Bond must (in the case of Bearer Covered Bonds) deliver such Covered Bond (together with all unmatured Receipts and Coupons and unexchanged Talons), on any Business Day falling within the above-mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) within the notice period and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6.4. In the case of Registered Covered Bonds, the holder of the Covered Bond must deliver the certificate representing such Covered Bond to the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Put Notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the above-mentioned notice period. No Covered Bond or certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

6.5. *Redemption due to illegality or invalidity*

- (a) The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar (if applicable) and, in accordance with Condition 13 (*Notices*), all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered Bonds redeemed pursuant to Condition 6.5(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.6. *General*

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 (*Redemption for taxation reasons*) or 6.5(a) (*Redemption due to illegality or invalidity*), the Issuer shall deliver to the Bond Trustee a certificate signed by two Directors stating that the Issuer is entitled or required to effect such redemption in accordance with Conditions 6.2 (*Redemption for taxation reasons*) or 6.5(a) (*Redemption due to illegality or invalidity*) and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the Issuer's rights or obligation (as applicable) under Conditions 6.2 (*Redemption for taxation reasons*) or 6.5(a) (*Redemption due to illegality or invalidity*) in which event it shall be conclusive and binding on all Covered Bondholders, Receipholders and Couponholders.

6.7. *Early Redemption Amounts*

For the purpose of Conditions 6.2 (*Redemption for taxation reasons*) and 6.5(a) (*Redemption due to illegality or invalidity*) and Condition 9 (*Events of Default, Acceleration and Enforcement*), each Covered Bond will be redeemed (unless otherwise stated in the applicable Final Terms) at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond other than a Zero Coupon Covered Bond (but including an Instalment Covered Bond or a Partly Paid Covered Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and
- (b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation in paragraph (b) above is to be made for a period which is not a whole number of years, it shall be made (A) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each, or (B) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365) or (C) on such other calculation basis as may be specified in the applicable Final Terms.

#### 6.8. *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7 (*Early Redemption Amounts*).

#### 6.9. *Purchases*

The Issuer or any of its subsidiaries (including the LLP), or any holding company of the Issuer or any other subsidiary of any such holding company may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all the Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

#### 6.10. *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.9 (*Purchases*) and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

#### 6.11. *Taxes*

The Issuer has undertaken in the Trust Deed to pay United Kingdom stamp and other duties or taxes (if any) on or in connection with the execution of the Trust Deed and United Kingdom, Belgian and Luxembourg stamp and other duties or taxes (if any) payable on or in connection with the constitution and original issue of any Covered Bonds and the Definitive Covered Bonds and the Receipts and the Coupons and stamp and other duties or taxes (if any) payable in the United Kingdom (but not elsewhere) solely by virtue of and in connection with any action properly taken by the Bond Trustee (or any Covered Bondholder, Couponholder, Receiptholder, or holder of Talons where permitted to do so under the Trust Deed) to enforce the provisions of the Covered Bonds, Receipts, Coupons, Talons or the Trust Deed, save that the Issuer shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Covered Bonds in global or definitive form or the Receipts, Coupons or Talons (in each case other than as aforesaid) shall be the liability of the relevant holders thereof.

6.12. *Redemption of Index Linked Redemption Covered Bonds*

Unless previously redeemed or purchased and cancelled, each nominal amount of the Index Linked Redemption Covered Bonds equal to the Calculation Amount set out in the Applicable Final Terms (the **Specified Amount**) will be redeemed by the Issuer at the Final Redemption Amount(s) specified in, or determined in the manner specified in the applicable Final Terms on the Maturity Date.

Information on (i) potential adjustments, de-listing, merger events and other factors; and (ii) physical delivery, will be set out in the applicable Final Terms

6.13. *Redemption of Equity Linked Redemption Covered Bonds*

Unless previously redeemed or purchased and cancelled, each nominal amount of Equity Linked Redemption Covered Bonds equal to the Calculation Amount specified in the applicable Final Terms (the **Specified Amount**) will be redeemed by the Issuer: (i) if Cash Settlement is specified in the applicable Final Terms, by payment of the Final Redemption Amount(s) specified in the applicable Final Terms, or determined in the manner specified in the applicable Final Terms, on the Maturity Date; or (ii) if Physical Delivery is specified in the applicable Final Terms, by delivery of the Asset Amount(s) specified in the applicable Final Terms, or determined in the manner specified in the applicable Final Terms, on the Maturity Date (subject as provided below); or (iii) if Cash Settlement and/or Physical Delivery is specified in the applicable Final Terms, by payment of the Final Redemption Amount(s) and/or delivery of the Asset Amount(s) on the terms set out in the applicable Final Terms, in each case on the Maturity Date.

Information on the adjustment to an index will be set out in the applicable Final Terms.

6.14. *Partly Paid Covered Bonds*

Partly Paid Covered Bonds will be redeemed at maturity in accordance with the provisions of the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7 (*Early Redemption Amounts*).

7. **Taxation**

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, or other charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction of such taxes, duties, or other charges is required by law. In that event, the Issuer will pay such additional amounts of principal and interest as will result (after such withholding or deduction) in receipts by the holders of the Covered Bonds, Receipts or Coupons of the sums which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon:

- (a) presented for payment in the United Kingdom; or
- (b) presented for payment by or on behalf of a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so, or (ii) is liable for such taxes, duties or other charges in respect of such Covered Bonds, Receipts or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds, Receipts or Coupons; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive; or

- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) presented for payment by, or on behalf of a holder that is a partnership or a holder that is not the sole beneficial owner of the Covered Bond, Receipt or Coupon, or which holds the Covered Bond, Receipt or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment.

As used herein, the **Relevant Date** means the date on which payment in respect of the Covered Bond, Receipt or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such date, the **Relevant Date** shall be the date on which such moneys shall have been so received and notice to that effect has been given to Covered Bondholders in accordance with Condition 13 (*Notices*).

If any payments made by the LLP under the Covered Bond Guarantee are or become subject to any withholding or deduction on account of any taxes, duties or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

## 8. Prescription

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within ten years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (Taxation)) therefor, subject in each case to the provisions of Condition 5 (*Payments*).

The Issuer shall be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a cheque which has been duly despatched in the Specified Currency remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly despatched in the Specified Currency remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 (*Payments*) or any Talon which would be void pursuant to Condition 5 (*Payments*).

In respect of Equity Linked Redemption Covered Bonds only where redemption provides for physical delivery of Asset Amount(s) in the Final Terms, claims against the Issuer or LLP for delivery of any Asset Amount(s) shall be prescribed and become void unless made within one year of the date on which the relevant Asset Amount(s) becomes deliverable.

## 9. Events of Default, Acceleration and Enforcement

### 9.1. *Issuer Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.1 means the Covered Bonds of this Series together with the Covered Bonds of all other Series (if any) constituted by the Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not included in the Early Redemption Amount) accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:



- (a) if default is made by the Issuer for a period of 14 days or more in the payment of any interest or principal due in respect of the Covered Bonds;
- (b) if the Issuer fails to perform or observe any of its other obligations under the Covered Bonds, Receipts or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Programme Agreement or any Subscription Agreement), but excluding any obligation of the Issuer to comply with the Asset Coverage Test and (except where the Bond Trustee, in its absolute discretion, considers such failure to be incapable of remedy when no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied. For the avoidance of doubt, a breach by the Issuer of any of the representations or warranties provided under any of the Transaction Documents shall not constitute an Issuer Event of Default;
- (c) if an order is made or an effective resolution is passed for the winding up of the Issuer (otherwise than for the purposes of a reconstruction or, amalgamation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution of all the Covered Bondholders);
- (d) if the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Liquidity Test Breach Period, and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of:
  - (i) ten Business Days from the date that the Seller and the LLP are notified of the breach of the Pre-Maturity Test; and
  - (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds;
- (e) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, or
- (f) the Issuer shall be unable to pay its debts as they fall due (within the meaning of section 23(1)(b) to (e) and section 123(2) of the Insolvency Act (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall stop making payment in respect of any debts that are due (save, in the case of stopping making payments, in each case in respect of any obligation for the payment of principal or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent,

provided that any condition, event or act described in subparagraph (b) above shall only constitute an Issuer Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and provided also that a breach of any obligation to provide notices, reports or other information to the FSA under the RCB Regulations and/or the FSA's Regulated Covered Bonds Sourcebook (**RCB Sourcebook**) shall not be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee.

Upon the Covered Bonds becoming immediately due and payable against the Issuer pursuant to this Condition 9.1, the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP and the Issuer with a copy to the Principal Paying Agent pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3 (*Enforcement*).

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator or other similar official appointed in relation to the Issuer following service of an Issuer Acceleration Notice (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Deed of

Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations. By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

## 9.2. *LLP Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 means the Covered Bonds of this Series together with the Covered Bonds of all other Series (if any) constituted by the Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (the **LLP Acceleration Notice**) in writing to the Issuer and the LLP, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (a) if default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 (*Final redemption*) when the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document other than the Programme Agreement or any Subscription Agreement (other than the obligation to satisfy the Asset Coverage Test in accordance with Clause 11 of the LLP Deed) to which the LLP is a party and (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, acting in its absolute discretion, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required), such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or
- (c) if an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or
- (d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (e) if the LLP is unable, or admits inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (f) if proceedings are initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or

in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or

- (g) if there is a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following service of a Notice to Pay,

provided that any condition, event or act described in subparagraph (b) above shall only constitute an LLP Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

Following service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3 (*Enforcement*).

Upon service of an LLP Acceleration Notice, the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with (to the extent not included in the Early Redemption Amount) accrued interest and any other amount due under such Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Trust Deed.

### 9.3. *Enforcement*

The Bond Trustee may at any time after service of an Issuer Acceleration Notice (in the case of the Issuer) or an LLP Acceleration Notice (in the case of the LLP), at its discretion and without further notice, take such proceedings against the Issuer or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document to which it is a party, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together as a single Series and (where appropriate) converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions under this Condition 9 the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time after the Security has become enforceable, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge or any other Transaction Document in accordance with its terms and take such proceedings or steps as it may think fit to enforce the Security, but it shall not be bound to take any such proceedings or steps unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and (where appropriate) converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid), and (ii) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Deed of Charge, any other Transaction Document, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing. For the avoidance of doubt, no

Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed if the Bond Trustee or the Security Trustee, as the case may be, has notified the Covered Bondholder, the Receiptholder or Couponholder that it is considering whether or not to take the relevant action.

**10. Replacement of Covered Bonds, Receipts, Coupons and Talons**

If any Covered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been given to the Covered Bondholders in accordance with Condition 13 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia* that if the allegedly lost, stolen, mutilated, defaced or destroyed Covered Bond Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Covered Bond, Receipt, Coupon or Talon or further Coupon) and otherwise as the Issuer may require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Issuer may require the person requesting delivery of a replacement Covered Bond, Receipt, Coupon or Talon to pay, prior to delivery of such replacement Covered Bond, Receipt, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Covered Bond shall be issued having attached thereto any Receipt, Coupon, or Talon, claims in respect of which shall have become void pursuant to Condition 8 (*Prescription*).

**11. Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent**

The names of the initial Principal Paying Agent, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any Covered Bonds are outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in Europe;
- (c) so long as any Covered Bond is listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) which may be the Principal Paying Agent, and a Transfer Agent (in the case of Registered Covered Bonds) which may be the Registrar, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or, as the case may be, other relevant authority;
- (d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are registered in the name of DTC or its nominee, there will at all times be an Exchange Agent with a specified office in the United States; and
- (e) there will at all times be a Paying Agent in a Member State of the European Union that shall not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing or complying with, or introduced in order to conform to, such Directive, provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State of the European Union unless at least one European Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.5 (*General provisions applicable to payments*). Any such variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 day's prior notice shall have been given to the Covered Bondholders in accordance with Condition 13 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## 12. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon Sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

Where:

- (a) a Talon (the **relevant Talon**) has become prescribed in accordance with Condition 8 (*Prescription*); and
- (b) the Covered Bond to which the relevant Talon pertains has not become void through prescription; and
- (c) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a **part Coupon sheet**), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Covered Bond, has been issued; and
- (d) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (c) above or, in the reasonable opinion of the Issuer, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Issuer may reasonably require there may be obtained at the specified office of the Paying Agent (or such other place of which notice shall be given in accordance with Condition 13 (*Notices*)), a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

- (A) in the case of a Covered Bond that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 8 (*Prescription*) or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Covered Bond, and (y) without any Talon or Talons, as the case may be; or
- (B) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 8 (*Prescription*) and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

For the avoidance of doubt, the provisions of this Condition 12 (*Exchange of Talons*) shall not give, or revive, any rights in respect of any Talon that has become prescribed in accordance with Condition 8 (*Prescription*).

## 13. Notices

All notices regarding the Bearer Covered Bonds will be valid if published in one leading English language daily newspaper of general circulation in London (expected to be the *Financial Times*) or any other daily newspaper in London approved by the Bond Trustee. The Issuer or, in the case of a notice given by the Bond Trustee or the Security Trustee, the Bond Trustee or the Security Trustee (as the case may be) shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different

dates, the last date of such first publication. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing or trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice will be deemed to have been given on the date of such publication. If the giving of notice as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) or such mailing, the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds provided that, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing or trading by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the third day after the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relevant Covered Bond or Covered Bonds, with the Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and DTC and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. Meetings of Covered Bondholders, Modification and Waiver**

**Covered Bondholders, Receiptholders, Couponholders and other Secured Parties should note that the Issuer, the LLP and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.**

##### **14.1. Meetings of Covered Bondholders**

The Trust Deed contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of modifications to these Terms and Conditions or the provisions of the Covered Bonds, the Receipts, the Coupons, the Trust Deed or any of the other Transaction Documents. Such a meeting may be convened by the Issuer, the LLP or the Bond Trustee and shall be convened by the Issuer at the request in writing of Covered Bondholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding. The quorum at any such meeting in respect of Covered Bonds of any Series for the transaction of business other than the passing of an Extraordinary Resolution or a Programme Resolution is one or more persons holding or representing in the aggregate not less than one-twentieth of the Principal Amount Outstanding of the Covered Bonds of such Series for the time outstanding. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing in the aggregate a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders of such Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the

Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in Principal Amount Outstanding of the Covered Bonds of a Series shall take effect as an Extraordinary Resolution of the holders of the Covered Bonds of such Series. If and whenever the Issuer shall have issued and have outstanding Covered Bonds of more than one Series the above provisions shall have effect subject to the following modifications:

- (a) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Covered Bonds of that Series;
- (b) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of more than one Series but does not give rise to a conflict of interest between the holders of Covered Bonds of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Covered Bonds of all the Series so affected; and
- (c) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of more than one Series and gives or may give rise to a conflict of interest between the holders of the Covered Bonds of one Series or group of Series so affected and the holders of the Covered Bonds of another Series or group of Series so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Covered Bonds of each Series or group of Series so affected,

and the above provisions concerning quorum and voting shall apply *mutatis mutandis* to such meeting or meetings.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution (A) (i) to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*); (ii) to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) or (iii) to direct the Bond Trustee to make any such determination as is referred to in Clause 20.1(b)(B) of the Trust Deed or (B) in relation to the appointment of a new Bond Trustee or Security Trustee or the removal of the Bond Trustee or Security Trustee (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series as provided in Clause 2.8 (*Separate Series*) of the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate). Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholder, holding at least 20 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds of any Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the Principal Amount Outstanding of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Trust Deed and the Deed of Charge contain similar provisions to those described above in relation to requests in writing from Covered Bondholders upon which the Bond Trustee or, as the case may be, the Security Trustee is bound to act (including in relation to the matters described in Conditions 9.1 (*Events of Default, Acceleration and Enforcement*), 9.2 (*LLP Events of Default*), 9.3 (*Enforcement*) and 14.2 (*Modifications and Waivers*)).

#### 14.2. *Modifications and Waivers*

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series and without the consent of the other Secured Creditors other than any Secured Creditor that is party to the relevant documents (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document provided that (i) in the sole opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series, and (ii) in the sole opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds Banking Group; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the LLP and the Principal Paying Agent may agree, without the consent of the Bond Trustee, the Security Trustee, the Covered Bondholders, Receiptholders or Couponholders or any of the other Secured Creditors, to any modification of any of the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds, the Receipts or Coupons of any Series or any of the provisions of any of the Transaction Documents, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series and provided always that the Bond Trustee shall not exercise any powers conferred on it in contravention of any express direction given by Extraordinary Resolution. The Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the sole opinion of the Security Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series, or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds Banking Group.

The Bond Trustee or, as the case may be, the Security Trustee shall be bound to agree to any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document if it is directed by Extraordinary Resolution of the relevant Covered Bondholders or requested to do so in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the relevant Covered Bonds then outstanding and, in each case, only if it shall first be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that, in the case of the Security Trustee, in its opinion, such modification is not materially prejudicial to the interests of any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds Banking Group.

The Bond Trustee or, as the case may be, the Security Trustee shall be bound to (i) waive or authorise any breach or proposed breach of any of the provisions of the Covered Bonds of any Series or any of the provisions of the Transaction Documents or (ii) in the case of the Bond Trustee, determine that any Issuer Event of Default, Potential Issuer Event of Default, LLP Event of Default or Potential LLP



Event of Default shall not be treated as such if it is so directed by Extraordinary Resolution of the relevant Covered Bondholders or requested to do so in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the relevant Covered Bonds then outstanding (in the case of any such determination as is referred to in (ii) above, with the Covered Bonds of all Series taken together as a single Series as provided in Clause 2.8 of the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) and, in each case, only if it shall first be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that, in the case of the Security Trustee, in its opinion, such waiver or authorisation is not materially prejudicial to the interests of any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds Banking Group.

In relation to any such modification, waiver, authorisation or determination, the Trust Deed contains provisions (which are described in Condition 14.1 (*Meetings of Covered Bondholders*)) for determining which Series of Covered Bonds are relevant in any particular case and for determining whether separate Extraordinary Resolutions or requests of each relevant Series or a single Extraordinary Resolution or request of all relevant Series are/is required.

The Security Trustee or the Bond Trustee shall not agree to any modification or make or grant any authorisation, waiver or determination pursuant to this Condition 14 (*Meetings of Covered Bondholders, Modification and Waiver*), until it shall have received from the Issuer written confirmation that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations and that either:

- (a) such modification, authorisation, waiver or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or
- (b) if such modification, authorisation, waiver or determination would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, authorisation, waiver or determination.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to the interests of any of the Covered Bond Swap Provider or the Interest Rate Swap Provider (except for any Covered Bond Swap Provider or Interest Rate Swap Provider who is a member of the Lloyds Banking Group), it shall give written notice to the Covered Bond Swap Provider and/or the Interest Rate Swap Provider (as the case may be), setting out the relevant details and requesting its consent thereto. The Covered Bond Swap Provider or Interest Rate Swap Provider (as the case may be), shall, within ten Business Days of receipt of such notice (the **Relevant Period**), notify (in writing) the Security Trustee of:

- (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or
- (b) its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonably made and to be considered in the context of its security position under the Deed of Charge).

Any failure by the Covered Bond Swap Provider or Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Swap Provider to such proposed modification, waiver or authorisation.

The Security Trustee may (without further enquiry) rely upon the consent (including deemed consent) or refusal in writing of the Covered Bond Swap Provider or Interest Rate Swap Provider, as provided above and shall have no liability to the Covered Bond Swap Provider, Interest Rate Swap Provider or any other Secured Creditor for consenting or not consenting (as the case may be) to a modification, waiver or authorisation on the basis of any such consent or refusal in writing or any deemed consent as provided above.

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and (where it is required to have regard to the interests of the Covered Bondholders) the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax or stamp duty consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

For the purposes hereof:

**Potential Issuer Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default; and

**Potential LLP Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default.

**15. Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the LLP**

If, in connection with the exercise of its powers, trusts, authorities or discretions, the Bond Trustee or the Security Trustee is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the Security Trustee, as the case may be, shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least 20 per cent. of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (i) to enter into contracts, financial or other transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, holding companies or any person or body corporate associated with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, holding companies or any other person or body corporate as aforesaid, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or any other Secured Creditors, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (i) supervising the performance by the Issuer, the LLP or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have received written notice

to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer, the LLP or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, compliance with the Asset Coverage Test, the Pre-Maturity Liquidity Test or the Amortisation Test; or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

## 16. Limited Recourse

The Covered Bondholders agree with the LLP and the Security Trustee that, notwithstanding any other provision of any Transaction Document, all obligations of the LLP to the Covered Bondholders in respect of the Secured Obligations owing to the Covered Bondholders are limited in recourse to the Charged Property and, upon the Security Trustee giving written notice to the Covered Bondholders that:

- (a) it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and
- (b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents,

the Covered Bondholders shall have no further claim against the LLP in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full.

## 17. Further Issues

The Issuer shall be at liberty from time to time (but subject always to the provisions of the Trust Deed and the Deed of Charge) without the consent of the Covered Bondholders, Receiptholders or Couponholders to create and issue further Covered Bonds (whether in bearer or registered form) having terms and conditions the same as the Covered Bonds of any Series or the same in all respects and guaranteed by the LLP save for the amount and date of the first payment of interest thereon, issue date and/or issue price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

## 18. Ratings Confirmations

- 18.1. By subscribing for or purchasing Covered Bond(s), each Covered Bondholder shall be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds is an assessment of credit risk and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a confirmation by a Rating Agency that any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document will not have an adverse effect on the then current rating of the Covered Bonds or cause such rating to be withdrawn (a **Rating Agency Confirmation**), whether such action is either (i) permitted by the terms of the relevant Transaction Document or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders.
- 18.2. In being entitled to have regard to the fact that a Rating Agency has confirmed that the then current rating of the relevant Series of Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.
- 18.3. By subscribing for or purchasing Covered Bond(s) each Covered Bondholder shall be deemed to have acknowledged and agreed that:

- (a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency;
- (b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof;
- (c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds forms a part; and
- (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any Covered Bondholder or any other party.

## 19. Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer

- 19.1. If so requested by the Issuer, the Bond Trustee and the Security Trustee shall, without the consent of the Covered Bondholders, Receiptholders or Couponholders or any other Secured Creditor, agree with the Issuer and the LLP to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal debtor under the Covered Bonds, the Receipts, the Coupons and all other Transaction Documents of any Subsidiary of the Issuer or any holding company of the Issuer or any other subsidiary of any such holding company, in each case incorporated or to be incorporated in any country in the world or to the resubstitution of the Issuer (such substituted issuer being hereinafter called the **New Company**) PROVIDED THAT in each case a trust deed is executed and other forms of undertaking are given by the New Company in the form and manner satisfactory to the Bond Trustee, agreeing to be bound by the provisions of the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which the Issuer is a party and with any consequential amendments which the Bond Trustee may deem appropriate as fully as if the New Company had been named in the trust presents, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents as the principal debtor in place of the Issuer (or of the previous substitute under this Condition). Further conditions shall apply to such substitution above as set out in the Trust Deed.
- 19.2. Any such trust deed executed and/or undertakings given pursuant to this Condition shall, if so expressed, operate to release the Issuer or the previous substitute as aforesaid from all of its obligations as principal debtor under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which it is a party. Not later than 14 days after the execution of such documents and compliance with such requirements, the New Company shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 13 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Company shall be deemed to be named in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents in place of the Issuer (or in each case in place of the previous substitute) under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Company.
- 19.3. The Issuer may (without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series or any other Secured Creditor (including the Bond Trustee and the Security Trustee) where the new entity is a corporation organised under the laws of the United Kingdom) consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation (where the surviving entity or transferee company is not the Issuer, such surviving entity or transferee company shall be referred to as the **New Entity**). Further conditions shall apply to such consolidation, merger or amalgamation as set out in the Trust Deed.
- 19.4. Any such trust deed executed and/or undertakings given pursuant to this Condition shall, if so expressed, operate to release the Issuer (as the case may be) or the previous substitute as aforesaid from all of its obligations under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents. Not later than 14 days after such consolidation, merger, amalgamation and/or transfer, the New Entity shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 13 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Entity shall be deemed to be named in the Covered

Bonds, the Receipts, the Coupons and the other Transaction Documents to which the Issuer is a party as the principal debtor in place of the Issuer (where the New Entity is the successor entity or transferee company of the Issuer) (or in each case in place of the previous substitute under this Condition) under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the trust presents, the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Entity.

**20. Contracts (Rights of Third Parties) Act 1999**

No person (other than the Rating Agencies in respect of Condition 18 (*Ratings Confirmations*)) shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**21. Governing Law**

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than each Scottish Declaration of Trust and certain documents to be granted pursuant to the Deed of Charge) are governed by, and shall be construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

## USE OF PROCEEDS

The gross proceeds (or the Sterling Equivalent thereof) from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after exchanging the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and the Asset Coverage Test and thereafter may be applied by the LLP:

- (a) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit;
- (b) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced;
- (c) subject to complying with the Asset Coverage Test, to make Capital Distributions to one or more Members; and/or
- (d) (if not denominated in Sterling, upon exchange into Sterling under the applicable Non-Forward Starting Covered Bond Swap) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

## LLOYDS BANKING GROUP

### Overview

The businesses of the Lloyds Banking Group are in or owned by the Issuer. Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

### History and development of Lloyds Banking Group

The history of the Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society.

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc with Lloyds Bank Plc, which was subsequently re-named Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, Lloyds TSB Group acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc (the **Acquisition**). The shareholders of Lloyds TSB Group plc approved the Acquisition at the company's general meeting on 19 November 2008. On 16 January 2009, the Acquisition was completed and Lloyds TSB Group plc changed its name to Lloyds Banking Group plc.

Pursuant to two placing and open offers which were completed by the Company in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Company's issued ordinary share capital. Following further issues of ordinary shares in February 2010 and May 2010 the UK Government's holding was reduced to approximately 41 per cent.

### Strategy

The Group's corporate strategy supports its vision of being recognised as the best financial services company in the UK by customers, colleagues and shareholders. The strategy is focused on being a conservative, "through the cycle" relationship-based business.

The main focus for the Group remains the financial services markets in the UK and the Group's strategic position was strengthened through the Acquisition in January 2009. The Group is a well diversified UK financial services group and the largest retail financial services provider in the UK. The Group has leading positions in many of the markets in which it participates, a market leading distribution capability, well recognised brands and a large customer base. The scale of the organisation provides the opportunity to further invest in products and services, systems and training that combined will offer improved choice and service to the Group's customers. The effective integration of the two businesses will be a significant challenge over the next few years, but comprehensive plans are in place and progress is already being made. The Group's corporate strategy is focused on the following.

#### *Developing strong customer franchises that are based on deep customer relationships*

The Group's businesses are focused on extending the reach and depth of its customer relationships, whilst enhancing product capabilities to build competitive advantage. Striving to understand and effectively meet the needs of the Group's customers from core banking products to the more specialist services such as insurance,

wealth management or corporate banking is at the heart of the Group's business and is fundamental to ensuring that the Group is developing long-lasting customer relationships.

#### *Building a high performance organisation*

In building a high performance organisation the Group is focused on improving its cost efficiency and utilising its capital more effectively whilst maintaining a prudent approach to risk.

- The Group aspires to have one of the lowest cost:income ratios amongst UK financial institutions and further improving the Group's processing efficiency and effectiveness will remain a priority. The anticipated synergies arising from the Acquisition will be key to further improving the Group's efficiency.
- Utilising capital more effectively is increasingly important in the current environment and capital will be rigorously allocated across the Group's portfolio of businesses to support business growth.
- The prudent Lloyds TSB "through the cycle" approach to risk has been applied to the enlarged Group. The Group's conservative and prudent approach to risk is core to the business model and the "through the cycle" approach means that the Group will continue to support its customers throughout the economic cycle. The risk structures and frameworks that have been implemented are the foundation for good business management.

#### *Managing the Group's most valuable resource, people*

Executing the Group's strategy effectively will only be possible if the Group ensures that deliverables are effectively aligned with its corporate strategy and it manages its most valuable resource, people, well. In driving performance it is important to encourage, manage and develop staff whilst creating a great place to work.

#### *Summary*

The Group believes that the successful execution of its strategy to focus on core markets, customer and cost leadership, capital efficiency, a prudent risk appetite and the effective management of its most valuable resource, its people, will bring the Group closer to achieving its vision of being recognised as the best financial services company in the UK.

### **Businesses and Activities**

At 31 December 2008, the Group's activities were organised into three segments: UK Retail Banking; Insurance and Investments; and Wholesale and International Banking. Following the Acquisition on 16 January 2009, the Group was reorganised into four segments: Retail; Wholesale; Wealth and International; and Insurance.

#### **Retail**

Retail is the largest retail bank in the UK and the leading provider of current accounts, savings, personal loans, credit cards and mortgages. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland, Birmingham Midshires and Cheltenham & Gloucester, at 31 December 2009 Retail served over 30 million customers through one of the largest branch and fee free ATM networks in the UK.

At 31 December 2009, Retail had approximately 22 million current account customers and provided social banking to over 4 million people through basic banking or social banking accounts. It was also the largest provider of personal loans in the UK, as well as being the UK's leading credit card issuer. Retail provides one in four residential mortgages making it the leading UK mortgage lender as well as being a major provider of home finance for the first time buyer. Retail is the largest private sector savings provider in the UK, with over 21 million savers at 31 December 2009. It is also a major general insurance and bancassurance distributor, selling a wide range of long-term savings, investment and general insurance products.

#### **Wholesale**

The Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The enlarged division, following the Acquisition, comprises Corporate Markets, Treasury and Trading and Asset Finance.

Corporate Markets comprises Corporate, Commercial, Corporate Real Estate, Specialist Finance and Wholesale Markets. Corporate, Commercial and Corporate Real Estate provide relationship-based banking, risk management and advisory services to corporate and commercial customers principally in the UK. Relationships



with customers with an annual turnover greater than £15 million are managed within Corporate, and commercial property-based relationships (including hotel, property-based leisure and construction) are generally managed within the Corporate Real Estate business. Commercial provides financial services to business customers ranging from new start-ups to those with a turnover of up to £15 million and invoice discounting and factoring services to a broader range of customers. Specialist Finance includes the acquisition finance and private equity businesses; all new business is being written under the brands of Lloyds Acquisition Finance or Lloyds Development Capital. Wholesale Markets provides risk management solutions, specialised lending, capital markets advisory and multi-product financing solutions to its customers, whilst managing the Group's own portfolio of structured credit investments and treasury assets.

Treasury and Trading's role is to provide access to financial markets in order to meet the Group's balance sheet management requirements, and provides trading infrastructure to support execution of customer-driven risk management transactions, whilst operating within a well controlled and conservative risk appetite.

Asset Finance consists of a number of leasing, hire purchase and speciality lending businesses including Contract Hire (Lex, Autolease and Hill Hire), Specialist Assets and Consumer Finance (Black Horse Motor and Personal Finance). Hire purchase is a form of consumer financing where a customer takes possession of goods on payment of an initial deposit but the legal title to the goods does not pass to the customer until the agreed number of instalments have been paid and the option to purchase has been exercised.

### **Wealth and International**

Wealth and International is a new division formed in 2009 to give increased focus and momentum to the private banking and asset management businesses and to closely co-ordinate the management of the Group's international businesses.

The Wealth business comprises private banking, wealth and asset management business in the UK and overseas. The key operations are UK and International Private Banking, which operate under the Lloyds TSB and Bank of Scotland brands, the Channel Islands and Isle of Man offshore businesses, the expatriates business and the Asset Management business which, following the completion of the sale of Insight Investment, is now consolidated within Scottish Widows Investment Partnership. In addition the Group holds a 60 per cent. stake in St James's Place plc and a 55 per cent. stake in Invista Real Estate, respectively the UK's largest independent listed wealth manager and real estate fund management group.

The International business comprises the Group's other international banking businesses outside the UK, with the exception of corporate business in North America which is managed through the Group's Wholesale division. These largely comprise corporate, commercial and asset finance businesses in Australia, Ireland and Continental Europe and retail businesses in Ireland, Germany and the Netherlands.

### **Insurance**

The Insurance division consists of three business units:

#### *Life, Pensions and Investments UK*

The UK Life, Pensions and Investments business is the leading bancassurance provider in the UK and has one of the largest intermediary sales forces in the industry. The business includes Scottish Widows which, for a number of years, has been a subsidiary of the Lloyds TSB Group and the provider of long-term savings and investment products distributed through all channels of that group. Following the Acquisition, the Life, Pensions and Investments business also includes business written through the intermediary and bancassurance channels under the Clerical Medical and Halifax brands respectively.

In common with other life assurance companies in the UK, the life and pensions business of each of the life assurance companies in the Lloyds Banking Group is written in a long-term business fund. The main long-term business funds are divided into With Profit and Non-Profit sub-funds.

With-profits life and pensions products are written from the respective With Profit sub-funds in the Group. The benefits accruing from these policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With Profit sub-fund.

Other life and pensions products are generally written from Non-Profit sub-funds.

Examples include unit-linked policies, annuities, term assurances and health insurance (under which a predetermined amount of benefit is payable in the event of an insured event such as being unable to work through sickness). The benefits provided by linked policies are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

#### *Life, Pensions And Investments Europe*

The European Life, Pensions and Investments business distributes products primarily in the German market under the Heidelberger Leben and Clerical Medical brands. The business unit was included within the International division of the former HBOS group.

#### *General Insurance*

The combined General Insurance business is a leading distributor of home and payment protection insurance in the UK, with products sold through the branch network, direct channels and strategic corporate partners. The business is one of the largest underwriters of personal insurance business in the UK and also has significant brokerage operations for personal and commercial insurances. It operates primarily under the Lloyds TSB, Halifax and Bank of Scotland brands.

### **Competitive Environment**

The Group is a diversified UK based financial services group providing a wide range of banking and financial services, predominantly in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

In the retail banking market, the Group competes with banks and building societies, major retailers and internet-only providers. In the mortgage market, competitors include the traditional banks and building societies and specialist mortgage providers. The Group competes with both UK and foreign financial institutions in the wholesale banking markets and with bancassurance, life assurance and general insurance companies in the UK insurance market.

The Group's businesses are subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom in which the Group's earnings are predominantly generated. Following the Acquisition, the Group now has greater exposure in a number of other jurisdictions; these include Ireland, Australia and the United States, and hence the Group is exposed to general and sector-specific economic conditions in these markets. Over approximately the two and a half years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty, particularly the very severe dislocation of the financial markets around the world that began in August 2007 but substantially worsened in September 2008 and has contributed to related problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions.

UK Government, EU or other intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of intervention, thus potentially putting the Group at a competitive disadvantage to other banks.

### **Regulation**

#### ***Overview of UK Regulation***

The cornerstone of the regulatory regime in the UK is the Financial Services and Markets Act 2000 (FSMA) which came into force on 1 December 2001. The FSA has responsibility under the FSMA for the regulation and oversight of a wide range of financial services activities in the UK. The FSA is responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA. As part of its authorisation process, the FSA reviews applicants to ensure that they satisfy the necessary criteria, including suitability, competence and financial soundness, to engage in regulated activity.

These responsibilities include the regulation of mortgage lending, sales and administration (October 2004) and general insurance sales and administration (January 2005). More recently, on 1 November 2009, responsibility for the regulation of banking conduct of business and for payment services, under the Payment Services Regulations 2009, transferred to the FSA.

The FS Act received Royal Assent on 8 April 2010. The FS Act establishes a new consumer financial education body, amends the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA

powers to make rules on remuneration arrangements, short selling, living wills, consumer redress schemes, and extends its enforcement powers. The FSA is currently consulting on implementing certain powers in the FS Act.

Significant changes to the UK regulatory regime are likely following the UK general election on 6 May 2010.

As at 31 December 2009 there were approximately 50 UK authorised institutions across the Group. These are regulated by the FSA on both an individual and a consolidated basis.

### ***Regulatory Approach of the FSA***

The FSA's regulatory approach aims to focus and reinforce the responsibility of senior management of a financial institution to ensure that it takes reasonable care to organise and control its affairs responsibly and effectively and that it develops and maintains adequate risk management systems.

A risk-based approach for the supervision of all financial institutions is adopted by the FSA and the starting point for the FSA's supervision is based on a systematic analysis of an institution's risk profile. Having determined the level of inherent risk, a minimum capital adequacy requirement is established, which the institution is required to meet at all times.

The FSA carries out its supervision of UK financial institutions through the collection of information from a series of prudential returns covering sterling and non-sterling operations, on-site reviews (through its ARROW reviews and through industry-wide thematic reviews), desk-based reviews, meetings with senior management and reports obtained from skilled persons. For major retail groups such as the Group, a dedicated relationship team coordinates much of this activity via its "Close and Continuous" supervision regime.

Regular prudential reports required by the FSA include operating statements and returns covering (amongst other things) capital adequacy, liquidity, large single exposures and large exposures to related borrowers. Capital adequacy returns are submitted on a periodic basis for all the authorised institutions within the Group. Regular non-prudential reports required by the FSA include complaints data, daily transaction reporting returns and product sales data. The FSA reporting rules were revised through the introduction of the Integrated Regulatory Reporting Programme, which came into effect in 2008.

The FSA Handbook sets out rules and guidance across a range of issues with which financial institutions are required to comply. These include, amongst other things:

- Principles for Businesses – 11 high level principles to which financial institutions are required to adhere.
- Authorisation requirements – these are standards that need to be met in order to be authorised and continue to be met on an ongoing basis.
- Prudential rules – these relate to capital adequacy and liquidity.
- Systems and controls requirements that are appropriate to the volume and complexity of activity undertaken.
- Conduct of Business rules that set out the requirements for aspects such as advising and selling, product disclosure, financial promotions (including compliance with the requirement that such promotions should be clear, fair and not misleading), responsible lending and default.
- Reporting Requirements – these set out periodic reporting requirements and event driven notifications that must be submitted to the FSA.
- Training and Competence rules – these are standards that apply to firms providing, amongst other services, advice to retail customers.
- Code of Market Conduct – this provides further rules and guidance on the market abuse offences set out in the FSMA.

A key theme running through most of the FSA's rules and regulations is the concept of Treating Customers Fairly (TCF), contained in Principle 6 of the FSA's Principles for Businesses. From 31 December 2008, the FSA expects all firms to be able to demonstrate that full TCF compliance has been embedded within their business activities, operations and culture. As mentioned above, the FS Act amends the FSMA to provide the FSA with an added regulatory objective of 'financial stability', defined as 'contributing to the protection and enhancement of the stability of the UK financial system'. In considering this objective, the FSA must have regard to the economic and fiscal consequences for the UK of instability of the UK financial system, the effects on the growth

of the UK economy of any regulatory action taken to meet the financial stability objective and the impact on the stability of the UK financial system of events or circumstances outside the UK.

At this stage it is unclear how the addition of the financial stability objective will affect the operation of the FSA's policy and supervisory functions. It is clear that it could have significant ramifications for the FSA's approach to the regulation of systemic organisations, particularly as regards the setting of capital and liquidity requirements, and potentially may affect the willingness of the FSA to allow organisations to grow by acquisition where growth could have systemic implications.

The FS Act also gives the FSA a new financial stability information gathering power which applies to authorised and unauthorised persons and is aimed at assisting the FSA in identifying threats to financial stability. In its consultation paper, the FSA proposes that, when deciding whether to impose a financial stability information requirement, factors it will take into account include: (i) the nature and extent of the risks to financial stability; (ii) whether the information is readily available from another source; and (iii) whether the information may assist the FSA in fulfilling its functions.

### ***Other Bodies Impacting the Regulatory Regime***

#### *The Bank of England and HM Treasury*

The agreed framework for co-operation in the field of financial stability in the financial markets is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England has specific responsibilities in relation to financial stability, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board. HM Treasury, the FSA and the Bank of England (collectively **the tri-partite**) work together to achieve stability in the financial markets.

#### *UK Government*

The UK Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury (the representative of the UK Government) about possible problems, for example, where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

In light of the current crisis in financial markets, the Banking Act 2009 secured Royal Assent in February 2009 and certain provisions, including those relating to the Special Resolution Regime (**SRR**), bank insolvency and bank administration, came into force at that time. The Banking Act provides the FSA, Bank of England and HM Treasury with tools for dealing with failing institutions as part of the SRR. These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (each a **relevant entity**) that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA).

The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a bridge bank wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met.

If the Issuer were made subject to the SRR, HM Treasury may take various actions in relation to any securities issued by the Issuer (including the Covered Bonds) without the consent of the holders thereof (**Investors**), including (among other things):

- transferring securities (including the Covered Bonds) free from any restrictions on transfer and free from any trust, liability or encumbrance;
- delisting the securities (including the Covered Bonds);
- converting securities (including the Covered Bonds) into another form or class; or
- prescribing that the transfer of securities (including the Covered Bonds) takes place free from any trust.

Accordingly, the taking of any such actions could adversely affect the rights of Investors, including the Covered Bondholders, the price or value of their investment, and the ability of the Issuer, Seller, Interest Rate Swap

Provider, Account Bank and/or GIC Provider to satisfy their obligations under the Covered Bonds or the Transaction Documents.

Where the stabilisation powers are exercised, HM Treasury must make statutory provision for a scheme or other arrangements for determining the compensation, if any, due to those affected by an exercise of the powers. However, there can be no assurance that Investors would thereby recover compensation promptly and equal to any loss actually incurred. See Risk Factor 1.18.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such order may (amongst other things) affect the ability of such entity to satisfy its obligations under the Transaction Documents and/or result in (i) (as noted above) the transfer of the Covered Bondholders' entitlements in respect of the Covered Bonds or the conversion of the Covered Bonds from "one form or class to another" (the scope of which is not clear) and/or (ii) modifications to the Terms and Conditions of the Covered Bonds and/or the Transaction Documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit a transfer instrument or order to disapply certain widely defined "default event provisions" which might otherwise be triggered by the transfer. These default event provisions could include certain trigger events included in the Transaction Documents in respect of the Issuer, including trigger events in respect of perfection of legal title to the Loans, and the Issuer Events of Default, acceleration and mandatory early redemption.

Moreover, other than in the context of certain partial property transfers, modifications may be made to contractual arrangements between the relevant institution and certain group companies (such as the LLP). If an instrument or order were to be made under the Banking Act in respect of the Issuer, such action may affect various other aspects of the transaction, including resulting in modifications to the Transaction Documents. For example, a transfer instrument or order made in respect of the Issuer may disapply certain remedial actions which the Issuer would otherwise be required to take in the event of a transfer or certain related events and, more generally, the ability of such entity to perform its obligations under the Transaction Documents.

The Authorities are also empowered by order to amend the law (other than the Banking Act and related statutory instruments) for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect.

#### *UK Financial Ombudsman Service (FOS)*

The FOS was established on 1 December 2001 pursuant to the FSMA to provide customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes that cover most financial products and services provided in (or from) the UK, from insurance and pension plans to bank accounts and investments, for eligible complainants, private individuals and small businesses, charities or trusts. The jurisdiction of FOS was extended in 2007 to include firms conducting activities under the Consumer Credit Act. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on firms.

#### *Lending Standards Board*

The Lending Standards Board (formerly the Banking Code Standards Board) is responsible for monitoring and enforcing compliance with a new Lending Code introduced on 1 November 2009 which relates to lending to private customers and small businesses.

#### *UK Office of Fair Trading (OFT)*

The OFT is the UK's consumer and competition authority. Its regulatory and enforcement powers impact the banking sector in a number of ways. For further details see note 52 to the 2009 consolidated financial statements contained within the Company's Annual Report and Accounts 2009 (such pages being incorporated by reference into this Prospectus) and *Risk Factors – Legal and regulatory risks*.

#### *UK Information Commissioner's Office*

This office is responsible for overseeing implementation of the Data Protection Act 1998. This Act regulates, among other things, the retention and use of data relating to individual customers.

The Freedom of Information Act 2000 (the **FOIA**) sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply.

### *EU Regulation*

The UK has implemented all of the directives introduced under the Financial Services Action Plan which was intended to create a single market for financial services across the EU. However, these directives are regularly reviewed at EU level and could be subject to change. The Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

EU directives, which are required to be implemented in EU Member States through national legislation, have a strong influence over the framework for supervision and regulation of financial services in the UK. The directives aim to harmonise financial services regulation and supervision throughout the EU by setting standards in key areas such as capital adequacy, access to financial markets, consumer protection and compensation schemes.

Financial institutions, such as those in the Group, are primarily regulated in their home state by a local regulator but the EU directives prescribe criteria for the authorisation of such institutions and the prudential conduct of business supervision applicable to them.

### *U.S. Operations and Regulation*

In the United States, the Issuer maintains a branch in New York and an agency in Miami, licensed by the States of New York and Florida, respectively. Lloyds Banking Group maintains representative offices in several U.S. cities. The existence of branch and agency offices in the U.S. subjects Lloyds Banking Group plc and its subsidiaries doing business or conducting activities in the U.S. to oversight by the Federal Reserve Board and limits the nature of the activities in which Lloyds Banking Group plc and its subsidiaries can engage in the U.S. the Issuer's branch and agency offices are subject to extensive federal and state supervision and regulation relating to their operations.

A major focus of U.S. governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with U.S. economic sanctions, with serious legal and reputational consequences for any failures arising in these areas. The Group engages, or has engaged, in a limited amount of business with counterparties in certain countries which the U.S. State Department currently designates as state sponsors of terrorism, including Iran, Syria, Cuba, and Sudan. In January 2008, the Group introduced an enhanced financial sanctions policy which applies to all of the Group's operations and severely restricts activity with certain high risk jurisdictions including the countries designated by the U.S. State Department. From their Acquisition in January 2009, HBOS and its subsidiaries became subject to the same policy and the Group has undertaken the activities necessary to implement policy requirements across the HBOS heritage businesses. The Group continues to reduce its outstanding exposures to such states which have arisen through historical business activity. In accordance with this policy, the Group intends to engage only in new business in such jurisdictions in very limited circumstances where the Group is satisfied concerning legal, compliance and reputational issues.

Since its implementation the policy has resulted in a significant reduction in the contacts that the Group had (in terms of value and volume) and the Group expects a further reduction in its contacts in the coming years. The Group does not have, and does not anticipate having, a physical presence in any of the countries designated as state sponsors of terrorism.

At 31 December 2009, the Group does not believe the Group's business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

The Group estimates that the value of the Group's business in respect of such states represented less than 0.02 per cent. of the Group's total assets and, for the year ended 31 December 2009, the Group believes that the Group's revenues from all activities relating to such states were less than 0.01 per cent. of its total income net of insurance claims. This information has been compiled from various sources within the Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

### *Other International Regulation*

The Group operates in many other countries around the world. The Group's overseas operations are subject to reporting and reserve requirements and controls imposed by the relevant central banks and regulatory authorities.

In view of the global financial crisis and the increased scrutiny financial regulators have come under, it is also expected that regulatory regimes in many jurisdictions will be significantly tightened. At a G20 meeting to tackle the financial crisis in November 2008, a set of common principles for the reform of financial markets was set out. These principles have been endorsed at subsequent G20 meetings and have the aim of strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; re-enforcing international co-operation and reforming international institutions. As a result of this and other domestic pressures, it is expected that Group entities in all jurisdictions will be subject to increased scrutiny.

### ***Current Regulatory Themes***

Regulatory themes which have a current bearing on the business of the Group include, but are not limited to, the following:

#### *Liquidity Regime*

On 5 October 2009 the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices and, in part, can be seen as a response to issues highlighted by the credit crisis. These new rules, which apply to a wider range of entities than the current liquidity regime, are based on the over-arching principle of regulated firms (their subsidiaries and branch offices) being self-sufficient and having adequate liquid resources to withstand particular liquidity stresses. The rules specify that this will be delivered through greatly enhanced systems and controls requirements and a regular and comprehensive liquidity risk assessment of the business which will be linked to the supervisory process and monitored through more granular and frequent reporting on the part of regulated firms. In particular, the rules have introduced enhanced quantification requirements which will ultimately require regulated firms to hold a greater quantity of higher quality liquid assets as a buffer against liquidity stresses. It is noted that the specific rules vary depending on the type of regulated firm and some regulated firms may be able to benefit from particular relaxations.

The new systems and controls requirements apply to most regulated firms from 1 December 2009 and the enhanced quantitative requirements will be introduced in stages over the course of 1 June to 1 November 2010.

Lloyds Banking Group believes that these new rules will apply to it and will likely require changes to its business model, in particular, the requirement to hold increased and higher quality liquid assets and the detailed reporting requirements (which may require Lloyds Banking Group to change or upgrade its systems) may result in reduced profitability for Lloyds Banking Group.

Lloyds Banking Group manages liquidity on a consolidated basis. In order to comply with certain FSA requirements regarding the management of liquidity resources on a consolidated basis certain FSA-authorized deposit-taking subsidiaries of Lloyds Banking Group plc have entered into intra-group facilities.

#### *FSA Supervisory Review into Historical HBOS Disclosures*

The FSA is conducting a supervisory review into the accuracy and completeness of financial disclosures made by HBOS in connection with its capital raisings in 2008, including information as to corporate impairments disclosed in the circulars and/or prospectuses issued by HBOS in connection with such capital raisings. The Group is cooperating fully with this review.

#### *Basel II*

Basel II has been implemented throughout the EU through the Capital Requirements Directive. This came into force for all European banks on 1 January 2007. With effect from 1 January 2008, for credit risk, the heritage Lloyds TSB Group adopted the Foundation Internal Ratings Based approach for its non-retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures. The heritage HBOS Group adopted the Advanced Internal Ratings Based approach for both its non-retail and retail exposures.

Both the heritage Lloyds TSB Group and the heritage HBOS Group adopted the Advanced Measurement Approach for Operational Risk from 1 January 2008.

### *Continuing Obligations*

Those Companies in the Group which have securities listed on the Official List or on other regulated markets intend to comply with their obligations as companies with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews and inquiries being conducted by the UK Office of Fair Trading as disclosed above on the Group. Under the GAPS Withdrawal Deed, the Group has, among other things, agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry.

### *Retail Banking Investigation*

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The European Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments.

High degrees of variation of prices, profit margins and selling patterns between EU Member States and high degrees of homogeneity within EU Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fees for payment cards, co-branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the European Commission indicated that it intended to gather more information before acting).

Further specific regulatory matters are set out in *Lloyds Banking Group — Legal actions* herein.

### **Legal Actions**

During the ordinary course of business the Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas.



### *Unarranged Overdraft Charges*

In April 2007, the OFT commenced an investigation into the fairness of personal current accounts and unarranged overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

The Supreme Court published its judgment in respect of the fairness of unarranged overdraft charges on personal current accounts on 25 November 2009, finding in favour of the litigant banks. On 22 December 2009, the OFT announced that it will not continue its investigation into the fairness of these charges. The Group is working with the regulators to ensure that outstanding customer complaints are concluded as quickly as possible and anticipate that most cases in the county courts will be discontinued. The Group expects that some customers will argue that despite the test case ruling they are entitled to a refund of unarranged overdraft charges on the basis of other legal arguments or challenges. It is not practicable to quantify the claims. The Group is robustly defending any such complaints or claims and does not expect any such complaints or claims to have a material effect on the Group.

The OFT however continued to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. On 16 March 2010 the OFT published a further update announcing several further voluntary industry wide initiatives to improve a customer's ability to control whether they used an unarranged overdraft and to assist those in financial difficulty. However, in light of the progress it noted in the unarranged overdraft market since July 2007 and the progress it expects to see over the next two years, it has decided to take no further action at this time and will review the unarranged overdraft market again in 2012. The OFT also announced it will shortly be commencing an investigation into the barriers to entry in the personal current accounts market.

### *Interchange Fees*

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the General Court). The Issuer and Bank of Scotland plc (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with European Commission competition laws. MasterCard has announced that it has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area multi-lateral interchange fees on an interim basis pending the outcome of the appeal. Meanwhile, the European Commission and the UK's OFT are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe European Commission and/or UK competition laws. As part of this initiative, the OFT will also intervene in the General Court appeal supporting the European Commission position and Visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the interim levels agreed by MasterCard. The ultimate impact of the investigations on the Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

### *Payment Protection Insurance—UK Competition Commission*

In January 2009, the Competition Commission completed its formal investigation into the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK. Various members of the Group underwrite PPI, while other members distribute PPI, by offering it for sale with a variety of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with the result being detrimental to consumers.

Following consultation, the Competition Commission published its final report on 29 January 2009 setting out its remedies. In summary, the Competition Commission has decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within seven days of the distributor's sale of

credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials; (iii) a requirement to provide personal PPI quotes to customers; (iv) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (v) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (vi) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vii) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors are permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy therefore precludes the selling of multi-year PPI policies for a single premium.

On 30 March 2009, Barclays Bank PLC lodged an appeal in the Competition Appeal Tribunal against the Competition Commission's findings. In particular, it requested that the Competition Appeal Tribunal quash the decision of the Competition Commission insofar as it relates to the prohibition of distributors selling PPI at the credit point of sale and the Competition Commission's findings on market definition and the nature and extent of competition in the supply of PPI. The Group filed a notice of its intention to intervene in the appeal on 23 April 2009. On 28 April 2009, the Group was granted permission by the Competition Appeal Tribunal to intervene in the appeal. The hearing of the appeal took place from 7 September 2009 to 11 September 2009. The Competition Appeal Tribunal handed down its judgment on 16 October 2009. It found in favour of Barclays in respect of its challenge to the Competition Commission's prohibition of distributors selling PPI at the credit point of sale but it did not uphold Barclays' challenge to the Competition Commission's findings on market definition. The matter has been referred back to the Competition Commission with direction to reconsider their remedies and make a new decision in accordance with the Competition Appeal Tribunal's ruling. This may or may not result in the Competition Commission ultimately reaching a different conclusion.

Depending on the outcome of the referral back to the Competition Commission, the Competition Commission's decision may have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Group was able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams. To this end, the Group took a commercial decision to sell only regular monthly premium PPI to its personal loan customers in the UK from early 2009. The FSA subsequently wrote to certain other firms still selling single premium PPI with unsecured personal loans asking them to withdraw the product as soon as possible, and no later than 29 May 2009.

On 1 July 2008, the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Group has been working with other industry members and trade associations in preparing an industry response to address regulatory concerns regarding the handling of PPI complaints. On 29 September 2009, the FSA issued a consultation paper on PPI complaints handling. The FSA has escalated its regulatory activity in relation to past PPI sales generally and has proposed new guidance on the fair assessment of a complaint and the calculation of redress and a new rule requiring firms to reassess historically rejected complaints. On 9 March, the FSA issued a further consultation paper on this area, the consultation period for which closed on 22 April (the Group has responded to this consultation). The FSA's proposals are materially the same, although it has placed the new rule requiring firms to reassess historically rejected claims on hold for the present.

The statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. The Group has subsequently agreed in principle that it will undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. The precise details of the review are still being discussed with the FSA. The ultimate impact on the Group of any review and/or the FSA's complaints handling proposals can only be known at the conclusion of these discussions and on publication of the FSA's final rules.

#### *U.S. Economic Sanctions*

Starting in 2007 the Issuer provided information in relation to its review of historic U.S. Dollar payments involving countries, persons or entities subject to U.S. economic sanctions administered by the Office of Foreign Assets Control (OFAC) to a number of authorities reported to be conducting a review of sanctions compliance by non-U.S. financial institutions. On 9 January 2009 the settlement reached by the Issuer with both the U.S. Department of Justice and the New York County District Attorney's Office in relation to their investigations was announced. The settlement documentation contains details of the results of the investigations including the identification of certain activities relating to Iran, Sudan and Libya which the Issuer conducted

during the relevant period. In 2008, the Issuer made a provision of £180 million which fully covered the settlement amount paid to the Department of Justice and the New York District Attorney's Office. On 22 December 2009 OFAC announced the settlement it had reached with the Issuer in relation to its investigation and confirmed that the settlement sum due to OFAC had been fully satisfied the Issuer's payment to the Department of Justice and the New York District Attorney's Office. No further enforcement actions are expected in relation to the matters set out in the settlement agreements. A purported shareholder filed a derivative civil action in the Supreme Court of New York, Nassau County on 26 February 2009 against certain current and former directors, and nominally against the Issuer and the Company, seeking various forms of relief following the settlement. The derivative action is at a very early stage, but the ultimate outcome of the action is not expected to have a material impact on the Group.

#### *Other Legal Actions*

In addition to the matters listed above the Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.

### **Major Shareholders and Related Party Transactions**

#### *Major Shareholders*

At 30 April 2010, notification had been received that The Solicitor for the Affairs of Her Majesty's Treasury had a direct interest of 41.26 per cent. in the Company's issued share capital with rights to vote in all circumstances at general meetings. No other notification has been received that anyone has an interest of 3 per cent. or more in the Company's issued ordinary share capital.

All shareholders within a class of the Company's shares have the same voting rights.

#### *Related Party Transactions*

The Group, as at 31 December 2009, had related party transactions with 14 key management personnel. See note 51 to the consolidated financial statements of the Company for the financial year ended 31 December 2009. In addition, material contracts with HM Treasury are described below under – *Information about the Lloyds Banking Group's relationship with the UK Government*.

Except as described below under – *Information about the Lloyds Banking Group's relationship with the UK Government*, there are no transactions to which the Group is a party involving the UK Government or any body controlled by the UK Government which are material to the Group or, to the Group's knowledge, to the UK Government or any UK Government controlled body, that were not made in the ordinary course of business, or that are unusual in their nature or conditions. However, considering the nature and scope of the bodies controlled by the UK Government, it may be difficult for the Group to know whether a transaction is material for such a body.

To the best of the Group's knowledge, any outstanding loans made by the Group to or for the benefit of the UK Government or any body controlled by the UK Government, were made (1) in the ordinary course of business, (2) on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, (3) did not involve more than the normal risk of collectability or present other unfavourable features, and (4) were made on arm's length basis.

#### *Information about the Lloyds Banking Group's Relationship with the UK Government*

On 18 September 2008, with the support of the UK Government, the boards of the Company and HBOS announced that they had reached agreement on the terms of a recommended acquisition by the Company of HBOS. On 13 October 2008, in the context of further unprecedented turbulence in global financial markets and as part of a co-ordinated package of capital and funding measures for the UK banking sector implemented by HM Treasury, the boards of both the Company and HBOS announced that they intended to participate in the proposed UK Government funding package and that they had agreed to proceed with the Acquisition on revised

terms. In this context, a combined total of £17,000 million of new capital was raised, consisting of £4,500 million in ordinary shares and £1,000 million in preference shares (before costs and expenses) by the Company and £8,500 million by ordinary shares and £3,000 million in preference shares (before costs and expenses) by HBOS.

#### *2008 Placing and Open Offer Agreement and Preference Share Subscription Agreement*

Pursuant to a placing and open offer agreement with effect from 13 October 2008 entered into between the Company, HM Treasury and the joint sponsors and joint bookrunners named therein (the **2008 Placing and Open Offer Agreement**), (i) the Company agreed to invite qualifying shareholders to apply to acquire open offer shares at an issue price of 173.3 pence per ordinary share by way of an open offer; (ii) the joint sponsors and joint bookrunners agreed to use reasonable endeavours to procure placees to acquire open offer shares at not less than the issue price on the basis that the open offer shares placed were subject to clawback to the extent they were taken up by qualifying shareholders in the open offer; and (iii) HM Treasury agreed that, to the extent not placed or taken up under the open offer, HM Treasury would acquire the open offer shares at the issue price. The 2008 placing and open offer comprised a placing and open offer of 2,596,653,203 shares at the issue price. The 2008 placing and open offer was successfully completed in accordance with its terms; however, the Company gave certain customary representations and warranties and indemnities to each of HM Treasury, the joint sponsors and joint bookrunners under the 2008 Placing and Open Offer Agreement that are unlimited as to time and amount.

The Company and HM Treasury also entered into a preference share subscription agreement, with effect from 13 October 2008, pursuant to which HM Treasury agreed to acquire, and the Company agreed to allot and issue, 1,000,000 new preference shares to HM Treasury for a total consideration of £1,000 million (before costs and expenses).

HBOS also entered into a placing and open offer agreement with effect from 13 October 2008 with HM Treasury and the joint sponsors and joint bookrunners named therein, on similar terms and for similar purposes as the Company's 2008 Placing and Open Offer Agreement and corresponding placing and open offer. A total of 7,482,394,366 HBOS open offer shares were offered at the issue price of 113.6 pence per share. In addition, HBOS entered into a preference share subscription agreement with HM Treasury with effect from 13 October 2008, pursuant to which HM Treasury agreed to acquire, and HBOS agreed to allot to HM Treasury, new HBOS preference shares for a total consideration of £3,000 million (before costs and expenses).

Pursuant to the placing and open offer, which was completed in January 2009 (and the concomitant placing and open offer by HBOS) and the Acquisition by the Company completed on 16 January 2009, the UK Government acquired 43.38 per cent. of the Company's issued ordinary share capital. In addition, £3,000 million non-cumulative 12 per cent. fixed to floating rate preference shares were issued by the Company to HM Treasury on 16 January 2009 in exchange for the £3,000 million preference shares which had been issued by HBOS plc to HM Treasury on 15 January 2009 (as referred to above).

#### *2009 Placing and Open Offer Agreement*

In June 2009 the Company issued approximately 10,408 million new ordinary shares as part of a placing and compensatory open offer. HM Treasury subscribed for approximately 4,521 million of these new ordinary shares at a price of 38.43 pence per share. As placees were procured for all the new ordinary shares for which valid acceptances were not received under the placing and compensatory open offer, HM Treasury's shareholding remained at 43.4 per cent. The Company used the proceeds from this placing and compensatory open offer to redeem the £4,000 million preference shares issued by the Company to HM Treasury, described above, at 101 per cent. of their issue price (in accordance with the terms agreed with HM Treasury) together with accrued dividends thereon.

In connection with the placing and compensatory open offer, a Placing and Open Offer Agreement dated 7 March 2009 (the **2009 Open Offer Agreement**) was entered into between the Company and HM Treasury (as amended and restated on 20 March 2009 between the Company, HM Treasury, Citigroup Global Markets U.K. Equity Limited, J.P. Morgan Cazenove Limited and UBS Limited and further amended and restated between the same parties on 18 May 2009), pursuant to which (i) the Company agreed to invite qualifying shareholders to apply to subscribe for the new ordinary shares described above at an issue price of 38.43 pence per share by way of a compensatory open offer, (ii) the joint sponsors and joint bookrunners were appointed and agreed to use reasonable endeavours to procure placees to subscribe for the open offer shares not taken up under the compensatory open offer, and (iii) HM Treasury agreed that, to the extent not placed or taken up under the compensatory open offer and subject to the terms and conditions set out in the Open Offer Agreement, HM Treasury would subscribe for such open offer shares itself at the issue price.

In consideration of the provision of its services under the 2009 Open Offer Agreement, the Company agreed to pay to HM Treasury (i) a commission of 0.5 per cent. of the aggregate value of the open offer shares at the issue price per open offer share payable on the earlier of admission to the Official List and to trading on the London Stock Exchange's main market and the second business day after the day on which the 2009 Open Offer Agreement is terminated, and (ii) a further commission of 1 per cent. of the aggregate value of the open offer shares subscribed for by HM Treasury (or its nominee) or by placees (including, for the avoidance of doubt, HM Treasury) at the issue price per open offer share payable on such date.

The Company also agreed to pay to each of HM Treasury, the joint sponsors and joint bookrunners all legal and other costs and expenses (properly incurred in the case of the joint bookrunners), and those of HM Treasury's financial advisers incurred in connection with the placing and compensatory open offer, the redemption of the preference shares or any arrangements referred to in the 2009 Open Offer Agreement.

The Company also agreed to bear all costs and expenses relating to the placing and compensatory open offer and the preference share redemption, including (but not limited to) the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of the prospectus document and all other documents connected with the placing and compensatory open offer and the preference share redemption, the listing fees of the FSA, any charges by CREST and the fees of the London Stock Exchange and Euronext. The costs and commissions incurred by the joint bookrunners in connection with the rump placing were deducted from the aggregate proceeds of the rump placing.

The Company gave certain representations and warranties and indemnities to each of HM Treasury, the joint sponsors and joint bookrunners under the 2009 Open Offer Agreement. The Company's liabilities thereunder are unlimited as to time and amount. HM Treasury is entitled to novate its rights under the agreement to any entity that is wholly-owned, directly or indirectly, by HM Treasury.

#### *Registration Rights Agreement*

Pursuant to its obligations to HM Treasury under the open offer agreement entered into by the Company with effect from 13 October 2008, the Company entered into a Registration Rights Agreement with HM Treasury on 12 January 2009, granting customary demand and "piggyback" registration rights in the United States under the United States Securities Act of 1933, as amended to HM Treasury with respect to any ordinary shares of the Group held by HM Treasury (**Registrable Securities**). Pursuant to the Registration Rights Agreement, HM Treasury is permitted to transfer its registration rights to any of its wholly-owned, directly or indirectly, entities, as well as to any third party to whom it transfers not less than U.S.\$500 million in Registrable Securities. In connection with any registered offering of ordinary shares by the Group under the Securities Act, any holders of Registrable Securities will have the right to participate in the offering, pursuant to customary "piggyback" registration rights, to the extent that such participation would not prevent successful completion of the offering. In addition, all holders of Registrable Securities have "piggyback" registration rights, on a pro rata basis, in any demand registration made by another holder pursuant to the Registration Rights Agreement.

The Registration Rights Agreement was amended with effect from 11 June 2009 to include as "Registrable Securities" (as defined in the Registration Rights Agreement) any new shares subscribed for under the 2009 Open Offer Agreement, any B shares and other securities in the Company called by HM Treasury to be issued by any person from time to time and securities issued by HM Treasury from time to time which are exchangeable for, convertible into, give rights over or are referable to any such securities.

#### *Resale Rights Agreement*

Pursuant to its obligations to HM Treasury under the 2009 Open Offer Agreement, the Company entered into a Resale Rights Agreement with HM Treasury with effect from 11 June 2009, in which it agreed to provide its assistance to HM Treasury in connection with any proposed sale by HM Treasury of ordinary shares, B shares and other securities held by HM Treasury in the Company from time to time, by HM Treasury and of any securities of any description caused by HM Treasury to be issued by any person from time to time and which are exchangeable for, convertible into, give rights over or are referable to such ordinary shares or other securities issued by the Group, to be sold in such jurisdictions (other than the United States) and in such manner as HM Treasury may determine. Such assistance may include, the provision by the Company of assistance with due diligence and the preparation of marketing and such other documentation (including any offering memorandum, whether or not a prospectus) as HM Treasury may reasonably request.

### *Government Asset Protection Scheme*

The Company entered into a Pre-Accession Commitments Deed dated 7 March 2009 and a Lending Commitments Deed dated 6 March 2009 with HM Treasury, both relating to the Company's proposed participation in GAPS. As further detailed below, the Company subsequently withdrew from its proposed participation in GAPS.

### *Lending Commitments Deed*

On 6 March 2009, the Company entered into a "deed poll" in favour of certain UK Government departments under which it undertook to support lending to creditworthy borrowers in the UK in a commercial manner with effect from 1 March 2009. This lending commitment was a pre-requisite to the Group's proposed participation in the GAPS, the objective of which was to reinforce the stability of the UK financial system and support the recovery of the UK economy. A condition to the Group's proposed participation in the GAPS was the commitment by the Company to increase net lending by approximately £14,000 million in the twelve months commencing 1 March 2009 to support UK businesses (approximately £11,000 million) and homeowners (approximately £3,000 million), and to maintain in the twelve months commencing 1 March 2010 similar levels of lending as in the twelve months commencing 1 March 2009, subject to adjustment of the lending commitments by agreement with HM Treasury and the Department for Business, Enterprise and Regulatory Reform to reflect circumstances at the start of the twelve month period commencing 1 March 2010.

Under the GAPS Withdrawal Deed (detailed below), the Company has agreed to reaffirm the lending commitments which were originally given in the Lending Commitments Deed. On 23 March 2010, the Company entered into a deed poll in favour of the UK Government departments confirming its lending commitments for the twelve month period commencing 1 March 2010. The Company agreed subject to, amongst other things, sufficient customer demand, to provide gross new lending to UK businesses of £44,000 million and to adjust the undertakings given in connection with lending to homeowners for the twelve month period. This additional lending in 2009 and 2010 is expressed to be subject to the Group's prevailing commercial terms and conditions (including pricing and risk assessment) and, in relation to mortgage lending, the Group's standard credit and other acceptance criteria.

### *HM Treasury Pre-Accession Deed*

On 7 March 2009, the Company entered into a deed poll in favour of HM Treasury, pursuant to which the Company gave a series of undertakings in relation to the provision of information and the management of the proposed assets, commitments and exposures proposed to be included in the GAPS (the **Proposed Assets**) in the period to the Group's proposed accession to the GAPS.

The Company's obligations under the Pre-Accession Deed referred to above (other than its commitment to inform the UK Government of certain deleveraging activities) were terminated pursuant to the GAPS Withdrawal Deed.

### *2009 Rights Issue*

In connection with the rights issue announced in November 2009, the Company issued approximately 36,505 million new ordinary shares in respect of a rights issue as part of an alternative to the Group's proposed participation in GAPS (together with a liability management exercise). The Company entered into an Undertaking to Subscribe agreement with HM Treasury whereby HM Treasury undertook, amongst other things, to take up its rights to subscribe for all of the new shares to which it was entitled under the rights issue. HM Treasury subscribed for approximately 15,854 million new shares at a price of 37 pence per share. As subscribers were procured for all the new ordinary shares for which valid acceptances were not received under the rights issue, HM Treasury's shareholding again remained at 43.4 per cent.

### *GAPS Withdrawal Deed*

Pursuant to the successful rights issue, the Company withdrew from its proposed participation in GAPS and on 3 November 2009, the Company entered into a GAPS Withdrawal Deed with HM Treasury (the **GAPS Withdrawal Deed**) pursuant to which, among other matters, the Company agreed to pay HM Treasury an amount of £2,500 million in recognition of the benefits to the Group's trading operations arising as a result of HM Treasury proposing to make GAPS available to the Group.

The GAPS Withdrawal Deed contained certain undertakings given by the Group to HM Treasury in connection with the state aid approval obtained from the European Commission and its withdrawal from GAPS. In particular, the Group is required to do all acts and things necessary to ensure the UK Government's compliance

with its obligations under the European Commission decision approving state aid to the Group. This undertaking includes an obligation: (i) to comply with the restructuring measures that the Group has agreed to undertake (as described herein); (ii) to comply with the terms of the restructuring plan accepted by the European Commission in connection with the approval of state aid to the Group; and (iii) to provide certain information to HM Treasury and do such acts as are necessary to enable compliance with the state aid approval to be monitored. The GAPS Withdrawal Deed also provides for the Group's restructuring obligations to be modified in certain limited circumstances (without prejudice to any challenge to such state modifications). However, HM Treasury has undertaken that it will not, without the consent of the Company, agree modifications to the Group's undertakings with respect to state aid which are significantly more onerous to the Company than those granted in order to obtain the state aid approval.

If the European Commission adopts a decision that the United Kingdom must recover any state aid, the Group has undertaken to repay all such state aid (subject to the Group's right to challenge any such decision in the European courts).

The GAPS Withdrawal Deed includes a number of other commitments given by the Company to HM Treasury. The Company has, among other things:

- (a) acknowledged its commitment to the principle that, from 2010, it should be at the leading edge of implementing the G20 principles, the FSA Code on remuneration and any remuneration provisions accepted by the Government from the Walker Review, provided that this principle shall always be applied in such a way as to allow the Company to operate on a level playing field with its competitors. In addition, the Group has agreed with HM Treasury the specific deferral and clawback terms which will apply to any bonuses in respect of the 2009 performance year;
- (b) reaffirmed the lending commitments as described above and, as part of its lending commitment to businesses, to contribute to the National Investment Corporation the lesser of £100 million and 10 per cent. of the total sums invested in the National Investment Corporation;
- (c) agreed to implement a customer charter for lending to businesses;
- (d) committed:
  - (i) to ensure that its public financial statements comply with best industry practice; and
  - (ii) to enter into discussions with HM Treasury with a view to ensuring that such public financial statements: (A) enable investors to assess the quality of the assets and liabilities of banking institutions, the financial position and performance of banking institutions and the nature and extent of risks arising from financial instruments to which banking institutions are exposed; and (B) are comparable as between similar banking institutions;
- (e) agreed to develop with the FSA, and implement, a medium term funding plan aimed at reducing dependence on short term funding to be regularly reviewed by the FSA and other members of the Tripartite; and
- (f) agreed to implement any measures relating to personal current accounts agreed between the OFT and the UK banking industry: (i) as detailed in the OFT's report "*Personal current accounts in the UK – a follow up report, October 2009*" and (ii) relating to fees and charges, and the terms and conditions of personal current accounts where any such measures are within the scope of current negotiations with respect thereto.

#### *State Aid*

As part of the European Commission's decision approving state aid to the Group, Lloyds Banking Group was required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. The plan was required to contain measures to limit any competition distortions resulting from the state aid received by Lloyds Banking Group. The College of Commissioners announced its formal approval of Lloyds Banking Group's restructuring plan on 18 November 2009.

The restructuring plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent, share of the personal current accounts market in the UK and approximately 19 per cent, of Lloyds Banking Group's mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in a specified pool of assets by 31 December 2014; and (iii) behavioural commitments, including commitments not to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31

January 2010 until 31 January 2012, which will prevent Lloyds Banking Group from paying dividends on its ordinary shares for the same duration.

The business referred to in (i) above will need to be disposed of within four years and consists of the TSB brand, the branches, savings accounts and branch-based mortgages of Cheltenham & Gloucester, the branches and branch-based customers of Lloyds TSB Scotland and a related banking licence, additional Lloyds TSB branches in England and Wales, with branch-based customers, and Intelligent Finance. Lloyds Banking Group is unable at this time to identify with any precision the assets and liabilities that will be divested, and associated income and expenses, until nearer the date of a sale.

#### *HMT Undertaking to Subscribe*

Under the HMT Undertaking to Subscribe, HM Treasury irrevocably undertook to procure that the Solicitor for the Affairs of Her Majesty's Treasury (as nominee for HM Treasury) (i) would vote in favour of all of the resolutions set out in the notice convening the general meeting of the Company held on 26 November 2009 in accordance with the recommendation of the board (except for resolution 4, as set out in the notice of general meeting) and (ii) would take up its rights to subscribe for all of the new shares to which it is entitled under the rights issue.

The Company agreed to pay to HM Treasury the HMT Commitment Commission, being a commission of up to £143.7 million, in consideration, amongst other things, for the undertakings given by HM Treasury in the HMT Undertaking to Subscribe.

#### *Cost Reimbursement Deed*

Under the cost reimbursement deed dated 2 November 2009, the Group agreed to pay for the UK Government's set-up costs relating to the proposed participation of the Group in GAPS (including all costs of the UK Government relating to the proposed participation of the Group in, and its withdrawal from, GAPS) and the UK Government's costs associated with the European Commission's approval of state aid to the Group.

#### *Credit Guarantee Scheme*

HM Treasury launched the Credit Guarantee Scheme in October 2008 as part of a range of measures announced by the UK Government intended to ease the turbulence in the UK banking system. It charged a commercial fee for the guarantee of new short and medium term debt issuance. The fee payable to HM Treasury on guaranteed issues was based on a per annum rate of 50 basis points plus the median five-year Credit Default Swap spread. The drawdown window for the Credit Guarantee Scheme closed for new issuance at the end of February 2010. At 31 December 2009, the Group had £49,070 million of debt in issue under the Credit Guarantee Scheme. During the year, fees of £498 million were paid to HM Treasury in respect of guaranteed funding were included in the Group's income statement.

#### *Government Shareholding*

The Government's shareholding in the Company is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UKFI (a company wholly owned by HM Treasury) on behalf of HM Treasury. No formal relationship agreement has been concluded between the Group and the UK Government and no specific measures are in place to ensure that control is not abused by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UKFI published on 13 July 2009. The framework document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (as defined therein) (including with respect to individual lending or remuneration decisions)". This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)".



These goals are consistent with the stated public policy aims of the UK Government, as articulated in a variety of public announcements (as at 10 May 2010). In the publication *"An Introduction: Who We Are, What We Do and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury"*, it is stated that UKFI is to "develop and execute an investment strategy for disposing of the investments in the banks in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition"<sup>1</sup>. UKFI has also stated that it intends to "engage robustly with banks' boards and management, holding both strategy and financial performance to account, and taking a strong interest in getting the incentives structures right on the board and beyond – accounting properly for risk and avoiding inefficient rewards for failure".

The Group, in common with other financial institutions, is also working closely with a number of Government departments and agencies on various industry-wide initiatives that are intended to support the Government's objective of greater stability in the wider financial system. These initiatives currently include the potential extension of the Bank of England's discount window facility whereby banks and building societies can exchange eligible securities and, potentially, other asset classes for HM Treasury gilts.

The Group also engages in numerous transactions on arm's length commercial terms in the ordinary course of its business with the Government and its various departments and agencies, as well as with other companies in which the Government has invested. This includes financings, lendings, banking, asset management and other transactions with UK financial institutions in which the Government has invested. During 2008 and 2009, the Group has made use of these measures in order to maintain and improve a stable funding position.

## Directors

The directors of the Group and the Issuer, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to the Group and/or the Issuer, are as follows:

### Name

### Principal outside activities

**Sir Winfried Bischoff**  
Chairman

A non-executive director of the McGraw-Hill Companies, Inc. and Eli Lilly and Company. Chairman of the UK Career Academy Foundation. A member of the Akbank International Advisory Board.

**Lord Leitch**  
Deputy Chairman

Chairman of Scottish Widows. Chairman of the Government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.

## Executive directors

**J. Eric Daniels**  
Group Chief Executive

A non-executive director of BT Group.

**Archie G. Kane**  
Group Executive Director, Insurance

Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group.

**G. Truett Tate**

A non-executive director of BritishAmerican Business

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153

<sup>1</sup> This third party information has been extracted from the UK Financial Investments Ltd's publication entitled "An Introduction: Who We Are, What We Do, and the Framework Document Which Governs the Relationship Between UKFI and HM Treasury" as published at <http://www.ukfi.co.uk/releases/UKFI%20Introduction.pdf>. Each of the Issuer and the LLP confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published at <http://www.ukfi.co.uk/releases/UKFI%20Introduction.pdf>, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Group Executive Director, Wholesale

**Tim J.W. Tookey**  
Group Finance Director

**Helen A. Weir CBE**  
Group Executive Director, Retail

**Non-executive directors**

**Sir Julian Horn-Smith**

Inc. A director of Business in the Community and Arora Holdings and a director and trustee of In Kind Direct.

None.

A member of the Said Business School Advisory Board.

A non-executive director of De La Rue, Digicel Group and Emobile (Japan), a director of Sky Malta, a member of the Altimo International advisory board and a senior adviser to UBS and CVC Capital Partners in relation to the global telecommunications sector.

**Glen R. Moreno**

Chairman of Pearson and a non-executive director of Fidelity International.

**David Roberts**

A member of the strategy board for Henley Business School, non-executive chairman of The Mind Gym and a non-executive director of Campion Willcocks.

**T. Timothy Ryan Jr**

President and chief executive of the Securities Industry and Financial Markets Association. A director of the U.S.-Japan Foundation, Great-West Life Annuity Insurance Co. and Putnam Investments and a member of the Global Markets Advisory Committee for the National Intelligence Council.

**Martin A. Scicluna**

Chairman of Great Portland Estates. A member of the council of Leeds University and a governor of Berkhamsted School.

**Anthony Watson CBE**

A non-executive director of Hammerson, Vodafone and Witan Investment Trust and chairman of Marks and Spencer Pension Trust, Asian Infrastructure Fund and Lincoln's Inn investment committee.

None of the directors of the Group or the Issuer have any actual or potential conflict between their duties to the Group or the Issuer and their private interests or other duties as listed above.

## **Recent Developments**

### ***Share Capital***

As part of the Group's recapitalisation and withdrawal from its proposed participation in the Government Asset Protection Scheme, the Group announced on 23 November 2009 that an aggregate amount of £1.48 billion would be issued in the form of new ordinary shares of Lloyds Banking Group plc in exchange for certain existing preference shares and preferred securities. The conversion price was determined as the five day weighted average price for the five trading days ending on 11 February 2010.

On 18 February 2010, the exchange completed and 3,141 million ordinary shares in Lloyds Banking Group plc were issued as consideration for the redemption of preference shares and preferred securities. In accordance with the Group's accounting policy in respect of debt for equity exchanges, a gain of £85 million will be recognised on this exchange transaction in the year ended 31 December 2010.

### ***Sale of esure***

On 11 February 2010, the Group announced the sale of its 70 per cent. stake in esure, the online insurer, to a management buyout vehicle to be called esure Group Holdings Limited, led by the esure chairman, for a cash consideration slightly in excess of book value in the Lloyds Banking Group accounts. The impact on the Group's accounts is not expected to be material.

## THE LLP

Lloyds TSB Covered Bonds LLP (the **LLP**) was incorporated on 12 September 2008 in England and Wales as a limited liability partnership (with registered number OC340094) under the LLPA by Lloyds TSB Bank plc and the Liquidation Member as its Members.

The LLP's registered office is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of the LLP's registered office is 0207 398 6300.

The LLP forms a group with its Members and has no subsidiaries. The LLP is dependent on (i) Lloyds TSB Bank plc and C&G to provide certain services to it on the terms of the Transaction Documents and (ii) on the Corporate Services Provider to provide certain corporate administration services.

The principal activities of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit, to borrow money and to do all such things as are incidental or conducive to the carrying on of that business.

The LLP has not engaged since incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA, activities contemplated under the Transaction Documents to which it is or will be a party, obtaining a standard licence under the CCA, filing a notification under the DPA and other matters which are incidental or ancillary to the foregoing.

### Members

The Members of the LLP as at the date of this Prospectus and their registered offices are:

<b>Name</b>	<b>Registered Office</b>
Lloyds TSB Bank plc	25 Gresham Street, London EC2V 7HN
Lloyds TSB Covered Bonds (LM) Limited	35 Great St. Helen's, London EC3A 6AP

### Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective businesses addresses and occupations at the date of this Prospectus.

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	35 Great St. Helen's, London, EC3A 6AP	Acting as corporate company director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Acting as corporate company director of special purpose companies
Gary Staines	10 Gresham Street, London EC2V 7AE	Director, Structured Securitisation Group, Lloyds TSB Bank plc

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their principal activities or business occupations are:

<b>Name</b>	<b>Business address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's, London EC3A 6AP	Managing Director, Structured Finance Management Limited
James Macdonald	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Robert Berry	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Paivi Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
John Paul Nowacki	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Vinoy Nursiah	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Debra Parsall (alternate director)	35 Great St. Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Limited

The directors of Lloyds TSB Bank plc are set out under "*Lloyds Banking Group – Directors*" above.

As at the date hereof, none of the directors of Lloyds TSB Bank plc, the directors of SFM Directors Limited or the directors of SFM Directors (No. 2) Limited are members of the LLP Management Board or have otherwise assumed a personal duty of care to the LLP and therefore, as at the date hereof, such parties do not have an actual conflict of interest between their duties to the LLP and their duties to the Member appointing them. As at the date hereof, there is no conflict of interest between Gary Staines' duties to the LLP and his duties to the Liquidation Member.

### **Management Board**

At the date of this Prospectus, the following are the members of the LLP Management Board:

<b>Position in the LLP</b>	<b>Name</b>	<b>Principal Activities outside the LLP</b>
Member of the Management Board	Darren Pope	Mortgage Finance Director, Lloyds Banking Group, Retail
Member of the Management Board	Edward Short	Group Funding and Capital Markets Issuance Director, Lloyds TSB Bank plc
Member of the Management Board	Gary Staines	Director, Structured Securitisation Group, Lloyds TSB Bank plc
Member of the Management Board	Monica de Vries	Co-Head Retail Secured, Structured Securitisation Group, Lloyds Banking Group Wholesale Markets

The business address of all the members of the LLP Management Board listed above with the exception of Darren Pope is 10 Gresham Street, London EC2V 7AE. The business address of Darren Pope is LP/3/3/SEC, Trinity Road, Halifax HX1 2RG.

The LLP has no employees.

There are no potential conflicts of interest between, on the one hand, any duties of the members of the LLP Management Board to the LLP and, on the other hand, their private interests or other duties.

As at the date of this Prospectus, the LLP is controlled by Lloyds TSB Bank plc. To ensure that such control is not abused, the Members of the LLP and the LLP, *inter alios*, have entered into the LLP Deed which governs the operation of the LLP.

In the event of the appointment of a liquidator or an administrator to Lloyds TSB Bank plc or Lloyds TSB Bank plc disposing of any of the shares of Lloyds TSB Covered Bonds (LM) Limited (such that it ceases to hold at least 20 per cent. of Lloyds TSB Covered Bonds (LM) Limited without any necessary consents), Lloyds TSB Covered Bonds (LM) Limited would take control of the LLP.

The LLP's accounting reference date is 31 December, with the first accounting reference date being 31 December 2009. As at the date of this Prospectus, the LLP has not produced any audited accounts.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed, made between the Issuer, the LLP, the Bond Trustee and the Security Trustee on the Programme Date, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign, or retire or be removed.

### Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, or if any other Issuer Event of Default occurs (other than by reason of non-payment), and, in either case, if the Bond Trustee has served an Issuer Acceleration Notice, the LLP has agreed (subject as described below) to pay or procure to be paid or delivered or procure to be delivered (in the case of Asset Amounts if required in accordance with the Final Terms in respect of Equity Linked Redemption Bonds only) (following service of a Notice to Pay) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, by the Issuer. Payment or delivery as the case may be, by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the LLP and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the LLP shall, to the extent it has funds available to it, make payments or a delivery (in the case of Asset Amounts) in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date (where an Extended Due for Payment Date is provided for in the relevant Final Terms). The Bond Trustee will be required to serve a Notice to Pay on the LLP and the Issuer with a copy to the Principal Paying Agent following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which, following the occurrence of an LLP Event of Default, an LLP Acceleration Notice is served in accordance with Condition 9.2 (*LLP Events of Default*). Following service of an LLP Acceleration Notice, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the obligations of the LLP under the Covered Bond Guarantee will be accelerated.

All payments or delivery, in the case of Asset Amounts, of Guaranteed Amounts by or on behalf of the LLP shall be made without withholding or deduction for, or on account of, any present or future taxes, duties or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction of such taxes, duties or other charges is required by law. In that event the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay or deliver in the case of Asset Amounts, any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional (subject to a Notice to Pay or LLP Acceleration Notice having been served), irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or

consent by the Bond Trustee or any of the Covered Bondholders, Receipholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2(a) (*LLP Events of Default*) of the Terms and Conditions, failure by the LLP to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in an LLP Event of Default.

The Trust Deed provides that any Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the LLP Accounts and shall be applied as Available Principal Receipts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

The Trust Deed is governed by English law.

### **Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the nominal value of the issue of the related Covered Bonds (or the Sterling Equivalent thereof) to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in either Sterling or in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms. For the avoidance of doubt, if the Covered Bond Swap in relation to the relevant Series or Tranche is a Forward Starting Covered Bond Swap, the Term Advance will be made in Sterling. Each Term Advance which is made in a currency other than Sterling will be exchanged by the LLP into Sterling pursuant to the relevant Non-Forward Starting Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP:

- (a) as consideration (in whole or in part) for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – *Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit,

to the extent required to meet the Asset Coverage Test and the requirement of Regulation 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations and thereafter may be applied by the LLP:

- (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; and/or
- (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
- (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and/or
- (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advances corresponding to the Covered Bonds being so refinanced; and/or
- (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

Each Term Advance which is made in the Specified Currency of the relevant Series or Tranche of Covered Bonds will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds. Each Term Advance which is made in Sterling will bear interest at a rate of interest equal to LIBOR for one month Sterling deposits plus a margin or such other rate or for such other interest period as may be agreed by the parties to the Intercompany Loan Agreement.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with



the relevant Priorities of Payments. Provided no Asset Coverage Test Breach Notice is outstanding, prior to service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may (but is not required to) use the proceeds of the Term Advances to pay amounts due on the Covered Bonds; any failure by the LLP to pay any amounts due on the Term Advances, however, will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding, the LLP may not borrow any new Term Advances from the Issuer under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee and (ii) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the Issuer or the LLP and cancelled in accordance with Condition 6.9 (*Purchases*). If a Term Advance is denominated in Sterling but the related Covered Bonds are denominated in another currency, the amount of the reduction shall be the Sterling Equivalent of the amount paid by the LLP under the Covered Bond Guarantee or the Sterling Equivalent of the Principal Amount Outstanding of Covered Bonds so purchased and cancelled.

The Intercompany Loan Agreement is governed by English law.

## **Mortgage Sale Agreement**

### *The Seller*

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Date between Lloyds TSB Bank plc (in its capacity as Seller), the LLP and the Security Trustee.

### *Sale by the Seller of the Loans and Related Security*

The Portfolio will consist of the Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Sale Date. Accordingly, the Portfolio may, at any time, include Loans with different characteristics from Loans that were included in the Portfolio or being offered to Borrowers on previous Sale Dates.

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the LLP will acquire the Loans and their Related Security from the Seller in certain circumstances, including the three circumstances described below.

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller.
- (b) *Second*, the LLP will, in certain circumstances, use the Available Principal Receipts to acquire Loans and their Related Security from the Seller and/or Substitution Assets (in the case of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.
- (c) *Third*, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable endeavours to offer to sell to the LLP sufficient New Loans and their Related Security on or before the next Calculation Date to ensure compliance with the Asset Coverage Test as at the next Calculation Date.

If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, Loans and their Related Security may only be acquired from the Seller if the Seller has provided a solvency certificate to the LLP and the Security Trustee.

In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Loans sold by it as at the Sale Date, which will be satisfied by one or a combination of:

- (i) a cash payment to be made by the LLP from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;
- (ii) the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the Current Balance of the New Loans sold by the Seller as at the relevant Sale Date and the cash payment (if any) made by the LLP in accordance with (i) above; and/or
- (iii) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available funds) in accordance with the relevant Priorities of Payments.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under *LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice* and *Sale of Selected Loans and their Related Security following service of a Notice to Pay*, the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under – *Repurchase of Loans*.

#### *Eligibility Criteria*

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Sale Date. These are as follows:

- (a) there shall have been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor an LLP Event of Default and service of an LLP Acceleration Notice as at the relevant Sale Date;
- (b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the proposed purchase by the LLP of the relevant Loans and their Related Security on the relevant Sale Date would adversely affect the then current rating by Moody's or Fitch of the Covered Bonds;
- (c) the yield on the Loans in the Portfolio together with the yield of the New Loans to be sold to the LLP on the relevant Sale Date is at least 0.15 per cent. greater than LIBOR for one-month sterling deposits as at the relevant Sale Date, after taking into account the weighted average yield on the Relevant Loans and the margins on the Swaps, in each case as at the relevant Sale Date;
- (d) no Loan that is proposed to be sold to the LLP on the relevant Sale Date has a Current Balance of more than £1,000,000;
- (e) if the Loans that are proposed to be sold to the LLP on the relevant Sale Date include New Loan Types or Loans in relation to which the relevant Borrower grants a mortgage or standard security over a property which is subject to a shared ownership lease, the LLP has obtained written confirmation from each of the Rating Agencies that if such New Loan Types were to be sold to the LLP, such sale of the New Loan Types to the LLP would not have an adverse effect on the then current ratings by the Rating Agencies of the Covered Bonds; and
- (f) no Loan that is proposed to be sold to the LLP on the relevant Sale Date relates to a Property which is not a residential property.

On the relevant Sale Date, the Representations and Warranties (described below in – *Representations and Warranties*) will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the LLP.

If the Seller accepts an application from, or makes an offer (which is accepted) to, a Borrower for a Product Switch or Further Advance which constitutes an unconditional obligation on the part of the Seller to make such Product Switch or a Further Advance, then the Seller may offer to repurchase the relevant Loan and the Related Security to which the Product Switch or Further Advance relates, subject to certain criteria being satisfied. As set out in the Servicing Agreement, C&G (in its capacity as Servicer) may not agree to a Product Switch or to make a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA, although the Seller may agree to such Product Switch or Further Advance if it repurchases the Loan that is subject to such Product Switch or Further Advance and if by so doing the LLP would not thereby be in contravention of the FSMA.

### *Transfer of Title to the Loans to the LLP*

English Loans will be sold by the Seller to the LLP by way of equitable assignment. Scottish Loans will be sold by the Seller on the First Sale Date by way of a Scottish Declaration of Trust and, in relation to Scottish Loans sold by the Seller to the LLP after the First Sale Date, by further Scottish Declarations of Trust under which the beneficial interest in such Scottish Loans will be transferred to the LLP. In relation to Scottish Loans, references in this document to a sale or equitable assignment of Loans or to Loans having been sold or equitably assigned are to be read as references to the making of such Scottish Declarations of Trust in respect of Scottish Loans. For the avoidance of doubt, in relation to Scottish Loans, references in this document to a legal assignment of Loans or to Loans having been legally assigned are to be read as references to the granting of assignments of such Scottish Loans pursuant to the Mortgage Sale Agreement. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to all of the Loans and their Related Security will remain with the Seller until legal assignments or assignments (as appropriate) are effected by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described in the paragraph below.

The assignments, assignments, transfers or conveyances (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP shall be perfected by the Seller (or, as the case may be, the LLP or the Security Trustee pursuant to powers granted under the Seller Power of Attorney) on or before the 20th London Business Day after the earliest to occur of:

- (a) service of a Notice to Pay (unless the Seller has notified the LLP that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time) or an LLP Acceleration Notice;
- (b) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or the LLP being required to perfect legal title to the Loans and their Related Security, or procure any or all of the acts referred to in Clause 6 of the Mortgage Sale Agreement, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply;
- (d) it becoming necessary by law to take such actions;
- (e) the Security Trustee giving notice that, in its opinion, the property, assets and rights of the LLP comprised in the Security constituted by the Deed of Charge or any material part thereof are in jeopardy and that the doing of any or all of the acts referred to herein is necessary in order to materially reduce such jeopardy;
- (f) the Seller calling for perfection by serving notice in writing to the LLP and the Security Trustee;
- (g) the date on which the Seller ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from Moody's of at least Baa3 or a long term unsecured, unsubordinated and unguaranteed credit rating by Fitch of at least BBB-; or
- (h) the occurrence of an Insolvency Event in relation to the Seller.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

The Title Deeds (if any) and Customer Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security, save for Title Deeds (if any) held at the Land Registry or the Registers of Scotland or the Registry of Deeds. The Seller will undertake that all the Customer Files and Title Deeds relating to the Loans in the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Security Trustee or as the Security Trustee may direct.

### *Representations and Warranties*

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP.

Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which consent will only be given if the Security Trustee is satisfied, acting reasonably, that there will be no adverse effect on the then current ratings of the Covered Bonds as a result thereof), amend or waive the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Sale Date in respect of the Loans and Related Security to be sold to the LLP only on that date:

- each Loan was originated by the Seller, C&G or another member of the Lloyds Banking Group, that has previously sold such loans to the Seller in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in Euro if the Euro has been adopted as the lawful currency for the time being of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- so far as the Seller is aware, other than with respect to Monthly Payments, no Borrower is or has, since the date of the execution of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Loan or its Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- the total amount of interest or principal in arrears, including any fees and premiums payable at the same time as that interest payment or principal repayment, on any Loan is not, on the relevant Sale Date in respect of any Loan, more than the amount of the Monthly Payment then due;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date of execution of the Mortgage;
- at least one Monthly Payment has been made in respect of each Loan or, for the avoidance of doubt, in case of a Product Switch, Flexible Loan or Further Advance, the original advance;
- the whole of the Current Balance on each Loan is secured by a Mortgage;
- no loan was originated under a dedicated staff scheme;
- save in relation to any Right to Buy Loan secured over a Property situated in England or Wales where (if there is one year or less to run of the statutory repayment period) that statutory charge may take priority, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage (or in Scotland) first ranking standard security over the relevant Property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland which, where required, have been made and are pending and in relation to such cases the Seller is not aware of any notice or any other matter that would prevent such registration or recording;
- each Loan and its Related Security is, save in relation to any term of a Loan or of its Related Security which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999, valid and binding and enforceable in accordance with its terms and is non-cancellable. To the best of the Seller's knowledge, none of the terms of any Loan or of its Related Security, save for any term which relates to Early Repayment Charges, the power to vary closing administration charges and the power to recover indemnity costs is unfair within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;
- all of the Properties are located in England, Wales or Scotland;
- in respect of Loans originated from applications received on or after 6 February 2006 for purchases not more than twelve months prior to the execution of such Mortgage (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) the Seller, C&G or another member of the Lloyds Banking Group has received a Valuation Report from a valuer on the relevant Property. In respect of Loans originated from applications received before 6 February 2006 and in respect of remortgages and further advances the Seller will either have obtained a valuation report or other evidence of value, the contents of which were such as would be acceptable to a Reasonable, Prudent

Mortgage Lender or, in appropriate cases (as would be acceptable to a Reasonable, Prudent Mortgage Lender), relied on the relevant Borrower's estimate of value;

- the benefit of all Valuation Reports and Certificates of Title which were provided to the Seller or C&G or another member of the Lloyds Banking Group not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- prior to the taking of each Mortgage (other than a remortgage), the Seller, C&G or another member of the Lloyds Banking Group instructed its solicitor or licensed or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake such other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller or C&G or another member of the Lloyds Banking Group issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the case of English Loans in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, Cheltenham & Gloucester plc's Mortgage Practice Notes) and, in the case of Scottish Loans, the CML's Lenders Handbook for Scotland (or, for Scottish Mortgages taken before the CML's Lender's Handbook for Scotland was adopted in 2000, Cheltenham & Gloucester plc's Mortgage Practice Notes) or such other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations made on a case by case basis as would have been acceptable to a Reasonable, Prudent Mortgage Lender at the relevant time;
- so far as the Seller is aware buildings insurance cover for such Property is available under a policy arranged by the Borrower or by or on behalf of the Seller or a buildings insurance policy arranged by the relevant landlord or the Properties in Possession Cover;
- the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by it to the LLP pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3 respectively to the Land Registration Act 2002) in the case of any property, interests or rights governed by English law) and the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee or with absolute warranty or as beneficial owner, as the case may be;
- either the Seller, C&G or any other member of the Lloyds Banking Group has, since the making of or acquisition of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such Loan; and
- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence.

Each Loan and its Related Security will be **eligible property** for the purposes of Regulation 2 of the RCB Regulations.

The Seller will make Representations and Warranties (subject to appropriate adjustments) in relation to each Loan which is subject to a Product Switch or Further Advance that remains in the Portfolio on the date on which the relevant Product Switch or Further Advance (as the case may be) is made.

If New Loan Types are proposed to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement may be modified as required, with the prior consent of the Security Trustee, to accommodate these New Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained.

#### *Repurchase of Loans*

If the Seller receives a Loan Repurchase Notice from the LLP identifying a Loan or its Related Security in the Portfolio which did not, as at the relevant Sale Date, materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loan secured or intended to be secured by that Related Security or any part of it. The repurchase price payable upon the repurchase of any such Loan is an amount (not less than zero) equal

to the Current Balance of such Loan(s). The repurchase proceeds received by the LLP will be applied in accordance with the Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

#### *General ability to repurchase*

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price (not less than zero) equal to the Current Balance of such Loan(s) as at the date of repurchase. The LLP may accept such offer at its discretion. If an Issuer Event of Default has occurred, the Seller's right to repurchase Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee.

#### *Defaulted Loans*

Defaulted Loans will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may, at its option, offer to repurchase a Defaulted Loan and its Related Security from the LLP for an amount equal to its aggregate Current Balance of such Loans as at the date of repurchase. The LLP may accept such offer at its discretion. If an Issuer Event of Default has occurred, the Seller's right to repurchase Defaulted Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee.

#### *Right of Pre-emption*

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price in aggregate equal to (a) where the Selected Loans are offered for sale whilst an Asset Coverage Test Breach Notice is outstanding but prior to service of a Notice to Pay, the then Current Balance of the Selected Loans and (b) where the Selected Loans are offered for sale following service of a Notice to Pay, the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount, in each case subject to the offer being accepted by the Seller within 10 London Business Days from and including the date of the Selected Loan Offer Notice. If an Issuer Event of Default has occurred, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related Security to other Purchasers (as described under – *LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay* below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of such repurchase shall take place on the LLP Payment Date next occurring after receipt by the Seller of such Selected Loan Repurchase Notice or such other date as the LLP may direct in the Selected Loan Repurchase Notice (provided that such date, where a Notice to Pay has been served, shall not be later than the earlier to occur of the date which is (a) 10 London Business Days after receipt by the LLP of the returned Selected Loan Repurchase Notice or (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

#### *Product Switches, Further Advances and Flexible Loan Drawings*

The Seller is solely responsible for funding all Further Advances and Flexible Loan Drawings in respect of Loans sold by the Seller to the LLP, if any. The Seller will be treated as having made a Capital Contribution in Kind (or in the case of a Payment Holiday funded by the Seller, a Cash Capital Contribution) in an amount equal to the relevant increase of the Current Balance of the Loan, as set out in the LLP Deed.

The LLP may require the Seller to repurchase any Loan and its Related Security in the event of a material breach of any of the Representations or Warranties or if any of those Representations or Warranties proves to be materially untrue in relation to that Loan. If a Loan is subject to a Product Switch or an offer of a Further

Advance, then the Seller may offer to repurchase the Loan or Loans under the relevant Mortgage Account and the Related Security from the LLP and the LLP may at its absolute discretion accept such offer. In either case, the sale price will be equal to the aggregate Current Balance of such Loans as at the date of repurchase.

A Loan will be subject to a **Product Switch** if there is a variation in the financial terms and conditions applicable to the relevant Borrower's Loan other than:

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation in the maturity of the Loan;
- any variation imposed by statute;
- any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or
- any variation in the frequency with which the interest payable in respect of the Loan is charged.

#### *New Sellers*

In the future, New Sellers may accede to the Programme and sell loans and their related security to the LLP. Any such New Seller will be required to enter into a New Mortgage Sale Agreement, which will be in substantially the same form and contain substantially the same provisions as the Mortgage Sale Agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee. The sale of New Seller Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller enters into a New Mortgage Sale Agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by such New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;
- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the Cash Manager and/or the LLP (in each case acting reasonably) to give effect to the addition of such New Member to the transactions contemplated under the Programme;
- any New Seller Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the New Mortgage Sale Agreement;
- either the Servicer services the New Seller Loans and their Related Security sold by the New Member on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Member (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Member (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (such that any fees payable to the Servicer or the New Member (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on the date of the accession of such New Member to the Programme); and
- the Security Trustee is satisfied that any modification of the Transaction Documents in order to accommodate the accession of the New Seller to the Programme will not be materially prejudicial to the interests of the relevant Secured Creditors and has obtained a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of Covered Bondholders will not be required in relation to the accession of a New Seller to the Programme.

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security, which are governed by Scots law).

### **Servicing Agreement**

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the Seller, the LLP, the Servicer and the Security Trustee, the Servicer has agreed to service, on behalf of the LLP, the Loans and their Related Security comprised in the Portfolio.

The Servicer will be required to manage the Loans and their Related Security in accordance with the Servicing Agreement:

- (a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and
- (b) in accordance with the Seller's servicing, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the LLP, the Seller and the other Secured Creditors.

The Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the LLP and the Seller (according to their respective estates and interests) in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary, convenient or incidental to the management of the Loans and their Related Security.

#### *Right of delegation by the Servicer*

The Servicer may from time to time sub-contract or delegate the performance of its duties under the Servicing Agreement, provided that it will nevertheless remain responsible for the performance of those duties to the LLP and the Security Trustee and, in particular, will remain liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor. Any such sub-contracting or delegation may be varied or terminated at any time by the Servicer.

#### *Undertakings of the Servicer*

Pursuant to the terms of the Servicing Agreement (and as noted below in item 8, the Cash Management Agreement), the Servicer will undertake in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and books of account on behalf of the LLP in relation to the Loans and their Related Security;
- keep any records necessary for the purposes of all Taxation, including, without limitation, VAT;
- to maintain approvals, authorisations, permissions, consents and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the DPA, permissions under the FSMA and licences under the CCA;
- to the extent so required by the relevant Mortgage Conditions and applicable law, notify Borrowers of any change in interest rates, whether due to a change in the LLP Standard Variable Rate or any other Discretionary Rate (defined below) or margin in relation to any Loan sold by the Seller to the LLP and in the Portfolio or as a consequence of any provisions of the Mortgage Conditions. Any change in the LLP Standard Variable Rate or any other Discretionary Rate or margin in relation to any Loan shall be notified in writing to each of the LLP, the Seller and the Security Trustee as soon as reasonably practicable and the Servicer shall, upon receipt of a request from any of such parties, notify such requesting party of any changes in the Monthly Payments in relation to the Loans sold by the Seller to the LLP;
- act as collection agent for the LLP for the purpose of collecting amounts due from Borrowers under the Loans and their Related Security sold by the Seller to the LLP and comprised in the Portfolio. It will deliver to the bankers automated clearing system or to the Account Bank such instructions as may be



necessary for the debit of the account of each Borrower in respect of which there is a direct debit mandate with the Monthly Payment due from such Borrower and for the amount of such monthly payment to be credited to the GIC Account. Under certain circumstances, alternative payment arrangements that ensure timely payment of monthly payments due from the Borrower may be agreed between the Servicer and the Borrower;

- keep the Customer Files and Title Deeds in its possession in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds (if any), the Customer Files and other records relating to the management of the Loans and their Related Security in its possession;
- keep and maintain records in respect of the Portfolio for the purposes of identifying amounts paid by each Borrower, any amount due from a Borrower and the Current Balance of each Loan and such other records as would be kept by a Reasonable, Prudent Mortgage Lender;
- assist the Cash Manager in the preparation of an Asset Coverage and Investor Report substantially in the form set out in the Cash Management Agreement which will include information on the Loans and payments in arrears;
- provide to the LLP, the Security Trustee and the Rating Agencies a report on a quarterly basis containing information about the Loans and their Related Security comprised in the Portfolio, and a report on a quarterly basis, in a form agreed with the LLP, the Security Trustee and the Rating Agencies, containing certain information about the individual Loans in the Portfolio;
- provide to the FSA such information on the composition of the Loans and their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to the RCB Regulations;
- take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the LLP including, without limitation, the institution of proceedings and/or the enforcement of any Loan sold by the Seller to the LLP comprised in the Portfolio or its Related Security; and
- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer (in its capacity as the servicer of the Loans and their Related Security in the Portfolio on behalf of the LLP) will undertake not to agree to a Product Switch or make, or permit to be made, a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA. The Seller (in its capacity as such) may agree to a Product Switch or make a Further Advance if it repurchases the Loan that is the subject of the Product Switch or Further Advance in accordance with the Mortgage Sale Agreement and if by doing so the LLP would not thereby be in contravention of the FSMA.

The Servicer also undertakes that, upon the Servicer or, if the Servicer benefits from the Parent Support Deed or any other parent support deed from time to time, Lloyds TSB Bank plc as the parent under the Parent Support Deed or such other parent as is relevant from time to time ceasing to be assigned a long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB- it will use reasonable endeavours to enter into a new or a master servicing agreement (in such form as the LLP and the Security Trustee shall reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

#### *Setting of LLP Standard Variable Rate and variable rates in relation to Tracker Loans*

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set, in relation to the Loans in the Portfolio, the LLP Standard Variable Rate and any other Discretionary Rates or margins applicable in relation to the Loans comprising the Portfolio from time to time, except in the limited circumstances described below when the LLP will be entitled to do so. The Servicer will not (except in limited circumstances) at any time set or maintain:

- (a) the LLP Standard Variable Rate applicable to any Variable Rate Loan in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Lloyds TSB Standard Variable Rate which applies to Loans beneficially owned by the Seller outside the Portfolio; or

- (b) any other discretionary rate (together with the Standard Variable Rates, the **Discretionary Rates**) or margin in respect of any other Loan in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin of the Seller, which applies to that type of Loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date immediately preceding each LLP Payment Date, having regard to the aggregate of:

- (i) the revenue which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);
- (ii) the LLP Standard Variable Rate and any other Discretionary Rates or margins applicable in respect of the Loans which the Servicer proposes to set for the relevant LLP Payment Period under the Servicing Agreement; and
- (iii) the other resources available to the LLP including those under the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of revenue during the relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of: (1) the amount in respect of interest which would be payable (or provisioned to be paid) under the Intercompany Loan Agreement or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and (2) the other amounts payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default (the **Interest Rate Shortfall Test**). If the Servicer determines that there will be any shortfall on such Calculation Date (the **Interest Rate Shortfall**), the Interest Rate Shortfall Test shall not be met.

If the Servicer determines that the Interest Rate Shortfall Test will not be met on such Calculation Date, it will within one London Business Day of such determination give written notice to the LLP, the Seller and the Security Trustee of the amount of such Interest Rate Shortfall and of the LLP Standard Variable Rate and/or any other Discretionary Rates or margins applicable which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no Interest Rate Shortfall to arise and the Interest Rate Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other Discretionary Rates or margins would take effect, and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions, as regards the competing interests of Borrowers with Variable Rate Loans and Borrowers with other relevant Loans. For the avoidance of doubt, any action taken by the Servicer to set the LLP Standard Variable Rate and/or any other applicable Discretionary Rates or margins which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions.

If the LLP notifies the Servicer (copied to the Seller) that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other Discretionary Rates or margins should be increased, the Servicer shall take all steps which are necessary, including publishing any notice which is required in accordance with the Mortgage Conditions, to effect such change in the LLP Standard Variable Rate and/or any other Discretionary Rates or margins on the date(s) specified in the notice referred to in the paragraph above. In these circumstances the Servicer shall have the right to set the Lloyds TSB Standard Variable Rate and/or Discretionary Rates or margins of the Seller.

In addition, the Servicer shall determine on each Calculation Date following an Issuer Event of Default and if it remains outstanding, having regard to the aggregate of:

- (a) the LLP Standard Variable Rate and any other applicable Discretionary Rate or margin which the Servicer proposes to set for the Relevant LLP Payment Period under the Servicing Agreement; and
- (b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the relevant LLP Payment Period which would give an annual yield on the Loans in the Portfolio of at least LIBOR plus 0.15 per cent. (the **Yield Shortfall Test**).

If the Servicer determines that the Yield Shortfall Test will not be met on such Calculation Date, it will within one London Business Day of such determination give written notice to the LLP, the Seller and the Security Trustee of the amount of the shortfall and of the LLP Standard Variable Rate and/or any other Discretionary Rates or margins applicable which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no shortfall to arise and the Yield Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other Discretionary Rates or margins applicable in relation to any other Loan sold by the Seller to the LLP and in the Portfolio would take effect, and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions, as regards the competing interests of Borrowers with Variable Rate Loans and Borrowers with other relevant Loans. For the avoidance of doubt, any action taken by the Servicer to set the LLP Standard Variable Rate and/or any other applicable Discretionary Rates or margins which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions.

If the LLP notifies the Servicer that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other Discretionary Rates or margins in relation to any Loans sold by the Seller to the LLP and in the Portfolio should be increased, the Servicer shall take all steps which are necessary, including publishing any notice which is required in accordance with the relevant Mortgage Conditions, to effect such change in the LLP Standard Variable Rate and/or any other Discretionary Rates or margins on the date(s) specified in the notice referred to above. In these circumstances the Servicer shall have the right to set the Lloyds TSB Standard Variable Rate and/or Discretionary Rates or margins of the Seller, subject to the terms of the underlying Mortgage Conditions.

The LLP and/or the Security Trustee may terminate the authority of or any direction to the Servicer to determine and set the LLP Standard Variable Rate and any other applicable Discretionary Rates or margins in relation to any Loans in the Portfolio on or after the occurrence of a Servicer Termination Event as defined under *Removal or resignation of the Servicer* below, in which case the LLP will set the LLP Standard Variable Rate and any other applicable Discretionary Rates or margins in relation to any such Loans in the Portfolio.

#### *Remuneration*

The LLP shall pay to the Servicer an administration fee (inclusive of VAT) for its services (the **Administration Fee**). Such Administration Fee shall be calculated in relation to each Calculation Period and shall be payable to the Servicer in arrear on each LLP Payment Date.

#### *Removal or resignation of the Servicer*

The LLP (subject to the prior written notice of the Security Trustee) may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of seven London Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Security Trustee or the LLP, as the case may be, requiring the same to be remedied;
- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders, and the Servicer does not remedy that failure within 20 London Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the LLP or the Security Trustee requiring the Servicer's non-compliance to be remedied;
- an Insolvency Event occurs in relation to the Servicer; or
- the LLP resolves, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Security Trustee and the LLP (or such shorter time as may be agreed between the Servicer, the LLP and the Security Trustee) provided that a substitute servicer qualified to act as such under the FSMA and with a management team with experience of administering residential mortgages in the United

Kingdom has been appointed and enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the Covered Bondholders agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver the Title Deeds and Customer Files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the LLP. The Servicing Agreement will terminate at such time as the LLP has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

The Servicing Agreement is governed by English law and will be made by way of deed.

### **Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Servicer and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager, prior to service of a Notice to Pay or an LLP Acceleration Notice, on the Calculation Date immediately prior to each anniversary of the Programme Date or at such other additional times as may be agreed from time to time with a view to confirmation of compliance by the LLP with the Asset Coverage Test on that Calculation Date. If and for so long as the long-term ratings of the Cash Manager or, if the Cash Manager benefits from the Parent Support Deed or such other parent support deed as may be relevant from time to time, Lloyds TSB Bank plc as the parent under the Parent Support Deed or such other parent as is relevant from time to time are below Baa3/BBB- (by Moody's or Fitch, respectively) or whilst an Asset Coverage Test Breach Notice is outstanding, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to conduct such tests following each Calculation Date. Following service of a Notice to Pay (but prior to an LLP Event of Default or service of an LLP Acceleration Notice), the Asset Monitor will also be required to test the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Amortisation Test.

Following a determination by the Asset Monitor of any errors in the arithmetical accuracy of the calculations performed by the Cash Manager such that the Asset Coverage Test or the Amortisation Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, except in certain limited circumstances, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and is complete and not misleading, and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at the Programme Date, the LLP will pay to the Asset Monitor an agreed upon amount for the tests to be performed by the Asset Monitor.

The LLP may, at any time, but subject to the prior written consent of the Security Trustee, terminate the appointment of the Asset Monitor by giving at least 30 days' prior written notice to the Asset Monitor, provided that such termination may not be effected unless and until a replacement asset monitor has been found by the LLP (such replacement to be approved by the Security Trustee (such approval to be given if the replacement is an accountancy firm of national standing)) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement (or substantially similar duties).

The Asset Monitor may, at any time, resign by giving at least 30 days' prior written notice to the LLP and the Security Trustee, and may resign by giving immediate notice in the event of a professional conflict of interest caused by the action of any recipient of its reports.

Upon the Asset Monitor giving notice of resignation, the LLP shall immediately use all reasonable endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the

date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm to carry out the relevant tests on a one-off basis (such replacement to be approved by the Security Trustee unless the replacement is an accountancy firm of national standing).

Neither the Bond Trustee nor the Security Trustee will be obliged to act as Asset Monitor in any circumstances.

The Asset Monitor Agreement is governed by English law.

## **LLP Deed**

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time, the **LLP Deed**). A management board comprised as of the Programme Date of directors, officers and/or employees of the Lloyds Banking Group will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP, subject to certain decisions reserved to the Members in the LLP Deed.

## *Members*

As at the Programme Date, each of the Seller and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. The Seller and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to the Seller or if the Seller disposes of its interest in the Liquidation Member such that the Seller holds less than 20 per cent. of the share capital of the Liquidation Member (without the consent of the LLP and, whilst any Covered Bonds are outstanding, the Security Trustee), the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**) owed by the LLP to Lloyds TSB Bank plc. In these circumstances, the Liquidation Member (acting on behalf of itself and the other Members) will admit a new Member to the LLP (which is a wholly-owned subsidiary of the Liquidation Member) and will appoint such New Member as a Designated Member pursuant to the terms of the LLP Deed (in each case with the prior written consent of the Security Trustee).

Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP will, amongst other things, be required to become a Member of the LLP and accede to the LLP Deed, amongst other documents. Other than in the case of a New Seller or the replacement of the Seller as a Member in the circumstances outlined in the previous paragraph, no New Member may be appointed without the consent of the Security Trustee and the receipt by the LLP or the Security Trustee of a Rating Agency Confirmation.

## *Capital Contributions*

From time to time the Seller (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of the Seller shall be calculated in Sterling on each Calculation Date as the difference between (a) the Current Balance of Loans in the Portfolio as at the last day of the immediately preceding Calculation Period plus Principal Receipts standing to the credit of the Principal Ledger of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the immediately preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the immediately preceding Calculation Period. The LLP Deed does not impose any limit on the amount of Capital Contributions the Seller (in its capacity as a Member) may make to the LLP from time to time. Cash Capital Contributions will normally be credited to the Principal Ledger on the GIC Account and be applied as Available Principal Receipts. However, the Seller shall be entitled to require that the LLP credits Cash Capital Contributions to the Reserve Ledger on the GIC Account so that they may be applied as Available Revenue Receipts.

The Liquidation Member will not make any Capital Contributions to the LLP.

Capital Contributions or returns on Capital Contributions shall only be paid to Members after the LLP has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

#### *Asset Coverage Test*

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that, on each Calculation Date prior to service of a Notice to Pay or an LLP Acceleration Notice, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) shall notify in writing the Members, the Bond Trustee and the Security Trustee thereof and each Member (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*), transfer Substitution Assets or provide Cash Capital Contributions in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and shall send notice of the same to the FSA pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

For so long as an Asset Coverage Test Breach Notice is outstanding:

- (a) the LLP will be required to sell Selected Loans (as described further under *LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding*);
- (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments will be modified as more particularly described in *Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of an Asset Coverage Test Breach Notice* below; and
- (c) the Issuer will not be permitted to make to the LLP and the LLP will not be permitted to borrow from the Issuer any new Term Advances under the Intercompany Loan Agreement.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and pursuant to Condition 9.1(d) (*Issuer Events of Default*) the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence of an Issuer Event of Default, the Bond Trustee shall give notice of the same to the FSA pursuant to the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (X + Y + Z)$$

where,

A = the lower of (a) and (b), where:

- (a) = the sum of the **Adjusted Current Balance** of each Loan in the Portfolio as at the end of the relevant Calculation Period, which shall be the lower of:
  - (i) the Current Balance of the relevant Loan in the Portfolio as calculated as at the end of the relevant Calculation Period; and
  - (ii) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are not Defaulted Loans, M = 0.75, for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of

less than or equal to 75 per cent.,  $M = 0.40$  and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than to 75 per cent.,  $M = 0.25$ ),

*minus*

the aggregate sum of the following deemed reductions to the aggregate Adjusted Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security was, in the immediately preceding Calculation Period, identified as being in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
- (2) the Seller, in the preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller and/or the Servicer to indemnify the LLP for such financial loss);

AND

(b) = the aggregate **Arrears Adjusted Current Balance** of the Loans in the Portfolio as at the end of the relevant Calculation Period which shall be the lower of:

- (i) the Current Balance of the relevant Loan in the Portfolio as at the end of the relevant Calculation Period; and
- (ii) the Indexed Valuation relating to that Loan multiplied by  $N$  (where for all Loans that are not Defaulted Loans,  $N = 1$ , for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75 per cent.,  $N = 0.40$  and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than 75 per cent.,  $N = 0.25$ );

*minus*

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security was, in the immediately preceding Calculation Period, identified as being in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be

reduced by an amount equal to the Arrears Adjusted Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller and/or the Servicer to indemnify the LLP for such financial loss),

*the result of which is multiplied by the Asset Percentage (as defined below);*

- B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Account and any Authorised Investments (but without double counting));
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- D = the aggregate principal amount of any Substitution Assets as at the relevant Calculation Date;
- E = the amount of any Sale Proceeds or Capital Contributions (to the extent not falling within "C" above) otherwise standing to the credit of the GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date;
- X = Nil or from and after the date that is the earliest of (i) the Issuer's long-term credit rating by Moody's falling below A2; or (ii) the Issuer's long-term credit rating by Fitch falling below A-; 5.0 per cent. (such percentage to be reviewed annually by the Issuer) of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date (or such other percentage as may be set, subject to the Issuer obtaining a Rating Agency Confirmation and notifying the Security Trustee from time to time);
- Y = 8 per cent. **multiplied by** the Flexible Draw Capacity (as defined below) **multiplied by** 3;
- Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor where the **Negative Carry Factor** is a percentage calculated by reference to the weighted average post Covered Bond Swap margin of the Covered Bonds plus the margin below the LIBOR payable on the GIC Account and will, in any event, be not less than 0.50 per cent.

Unless otherwise agreed with Fitch and Moody's, the **Asset Percentage** on any Calculation Date shall be the lowest of:

- (a) 93.0 per cent.;
- (b) the percentage figure as selected by the LLP (or the Cash Manager acting on its behalf), being the asset percentage that is necessary to ensure that the Covered Bonds maintain the then current rating assigned to them by Fitch; or
- (c) the percentage figure as selected by the LLP (or the Cash Manager acting on its behalf) and notified to Moody's and the Security Trustee on such Calculation Date or, where the LLP (or the Cash Manager acting on its behalf) has not notified Moody's and the Security Trustee of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification, as applicable, being the



percentage figure that is necessary to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

**Flexible Draw Capacity** means, on a Calculation Date, the amount equal to the excess of (1) the maximum amount that Borrowers may draw under Flexible Loans included in the Portfolio (whether or not drawn) over (2) the aggregate Current Balance in respect of Flexible Loans in the Portfolio on such Calculation Date.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an "Aaa" rating by Moody's using Moody's expected loss methodology.

Save where otherwise agreed with Fitch, the Asset Percentage will be adjusted in accordance with the various methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 93.0 per cent. unless otherwise agreed with Fitch.

There is no obligation on the LLP to ensure that an "Aaa" rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with the level of credit enhancement required to ensure an "Aaa" rating by Moody's, using Moody's expected loss methodology.

#### *Amortisation Test*

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date following service of a Notice to Pay, the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on such Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and, whilst Covered Bonds are outstanding, the Bond Trustee of any breach of the Amortisation Test.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Z$$

where,

A = the aggregate **Amortisation Test Current Balance** of each Loan, which shall be the lower of:

- (a) the Current Balance of the relevant Loan as at the end of the relevant Calculation Period **multiplied by M**; and
- (b) 100 per cent. of the Indexed Valuation **multiplied by M**,

where for all Loans that are not Defaulted Loans  $M = 1$  or for all the Loans that are Defaulted Loans  $M = 0.7$ ;

B = the sum of the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C = the aggregate principal amount of any Substitution Assets; and

Z = the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor.

#### *Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached*

The LLP Deed provides for sales of Selected Loans and their Related Security in circumstances where the Pre-Maturity Liquidity Test has been breached and the Pre-Maturity Liquidity Ledger is not funded by a Cash Capital Contribution by the Seller. The Pre-Maturity Liquidity Test will be breached if the ratings of the Issuer

fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further *Credit Structure – Pre-Maturity Liquidity Test* below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in – *Method of Sale of Selected Loans* below and subject to any Cash Capital Contribution made by the Members (other than the Liquidation Member). If the Issuer fails to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or the Cash Capital Contributions standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in *Credit Structure – Pre-Maturity Liquidity Test* below.

*Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding*

After service of an Asset Coverage Test Breach Notice and for so long as such Asset Coverage Test Breach Notice remains outstanding but prior to service of a Notice to Pay and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans in the Portfolio and their Related Security in accordance with the LLP Deed (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale will be credited to the GIC Account and applied as set out in *Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and prior to service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security* below.

*Sale of Selected Loans and their Related Security following service of a Notice to Pay*

After service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP shall sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

*Method of Sale of Selected Loans*

If the LLP is required to sell Selected Loans in the Portfolio and their Related Security to Purchasers following a breach of the Pre-Maturity Liquidity Test, whilst an Asset Coverage Test Breach Notice remains outstanding or following service of a Notice to Pay, the LLP will be required to ensure that:

- (a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and
- (b) the Selected Loans have an aggregate Current Balance in an amount (the **Required Current Balance Amount**) which is as close as possible to the amount calculated as follows:
  - (i) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their Current Balance, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the LLP Payment Date immediately following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on or before the next Calculation Date); or
  - (ii) following a breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay:

$$N \times \frac{\text{Current Balance of all Loans in the Portfolio}}{\text{the Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to:

- (A) in respect of Selected Loans being sold following a breach of the Pre-Maturity Liquidity Test, the Sterling Equivalent of the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or
- (B) in respect of the Selected Loans being sold following the service of a Notice to Pay, the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the LLP Accounts and the principal amount of any Substitution Assets or Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

For the avoidance of doubt, the entire Portfolio may comprise Selected Loans.

For the purposes hereof:

**Required Redemption Amount** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds  $\times$   $(1 + \text{Negative Carry Factor} \times (\text{days to maturity of the relevant Series of Covered Bonds} / 365))$

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (i) whilst an Asset Coverage Test Breach Notice is outstanding (but prior to service of a Notice to Pay), for an amount not less than the Current Balance of the Selected Loans; and
- (ii) following a breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

For the purposes hereof:

**Adjusted Required Redemption Amount** means the Sterling Equivalent of:

- (a) the Sterling Equivalent of Required Redemption Amount; plus or minus
- (b) the Sterling Equivalent of any swap termination amounts (if any) payable under the Covered Bond Swap Agreement by the LLP in respect of the relevant Series of Covered Bonds less (where applicable):
  - (i) in respect of a sale of Loans in connection with the Pre-Maturity Liquidity Test, amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or
  - (ii) in respect of a sale of Loans following service of a Notice to Pay, amounts standing to the credit of the LLP Accounts and the Sterling Equivalent of the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to pay or repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds; plus or minus;
- (c) any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement in respect of the relevant Series of Covered Bonds.

Following a breach of the Pre-Maturity Liquidity Test or a service of the Notice to Pay, if the Selected Loans have not been sold (in whole or in part) in an amount at least equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, the Final Maturity Date of the Earliest Maturing Covered Bonds (where the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee), or the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in

priority thereto) (where the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee) or the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds in respect of a sale in connection with the Pre-Maturity Liquidity Test, then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption in favour of the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds, provided that any such sale of Selected Loans is for an amount not less than the Adjusted Required Redemption Amount in respect of that Series of Covered Bonds or, where the sale occurs within six months prior to the Final Maturity Date or Extended Due for Payment Date (as applicable) for that Series of Covered Bonds, the best price reasonably available in accordance with the above paragraph.

The LLP is also permitted to offer for sale to Purchasers part of any portfolio of Selected Loans (a **Partial Portfolio**). Except in circumstances where the portfolio of Selected Loans is being sold within six months prior to the Final Maturity Date or, as applicable, if the Covered Bonds subject to an Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds or, in respect of a sale in connection with the Pre-Maturity Liquidity Test, the Final Maturity Date of the relevant series of Hard Bullet Covered Bonds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing approved by the Security Trustee (the **Portfolio Manager**) on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Loans in accordance with the LLP Deed to Purchasers (except where the Seller is buying the Selected Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment of the Portfolio Manager shall be in such form as is approved by the Security Trustee. The Security Trustee shall approve the appointment of the Portfolio Manager if (i) the Portfolio Manager is an investment bank or accountant of recognised standing and (ii) two authorised signatories of the LLP have certified to the Security Trustee that such appointment is on a basis intended to incentivise the Portfolio Manager to achieve the best price for the sale of the Selected Loans (on terms that are commercially available in the market), which certificate shall be conclusive and binding on all parties.

In respect of any sale or refinancing of Selected Loans and their Related Security for so long as an Asset Coverage Test Breach Notice is outstanding or following service on the LLP of a Notice to Pay, the LLP will instruct the Portfolio Manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable and in accordance with its recommendations (which shall take into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed).

The terms of any sale and purchase agreement with respect to the sale or refinancing of Selected Loans and their Related Security will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under – *Deed of Charge – Release of Security* below) are satisfied.

If Purchasers accept the offer or offers from the LLP or the portfolio manager on its behalf so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds or the Hard Bullet Covered Bonds or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require, *inter alia*, a cash payment from the relevant Purchasers. Any such sale will not include any representations and warranties from the LLP or the Seller in respect of the Loans and their Related Security unless expressly agreed by the Security Trustee and unless otherwise agreed with the Seller.

#### *Covenants of the LLP and the Members*

Each of the Members covenants that (amongst other things), subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any

beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that (amongst other things) it will not, save with the prior written consent of the LLP Management Board (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by or pursuant to the Transaction Documents:

- (a) create or permit to subsist any Security Interest (unless arising by operation of law) upon the whole or any part of its assets or undertakings, present or future;
- (b) sell, assign, transfer, convey, lend, part with, charge, declare a trust over, create any beneficial interest in or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of the Charged Property or any of its interest, estate, right, title or benefit therein or thereto or agree or attempt to purport to do so;
- (c) have an interest in a bank account other than the LLP Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to it;
- (d) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with any person or convey or transfer its property or assets substantially as an entirety to any other person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets;
- (h) engage in any activities in the United States (directly or through agents) or derive any income from the United States sources as determined under the United States income tax principles or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (l) be a member of any VAT group.

The LLP and each of the Members further covenants that it will, amongst other things:

- (a) ensure that the Asset Pool will only comprise of those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;
- (b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of **eligible property** in Regulation 2 (*Eligible Property*) of the RCB Regulations;
- (c) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and
- (d) at all times comply with its obligations under the RCB Regulations and/or the FSA Regulated Covered Bond Sourcebook.

#### *Limit on Investing in Substitution Assets and Authorised Investments*

Provided no Asset Coverage Test Breach Notice is outstanding and prior to the service on the LLP of a Notice to Pay, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Placing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

For so long as an Asset Coverage Test Breach Notice is outstanding or following service on the LLP of a Notice to Pay, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as

reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

#### *Other Provisions*

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under *Cashflows* below.

The LLP Management Board, comprised as at the Programme Date of directors, officers and/or employees of the Lloyds Banking Group, will act on behalf of the LLP to which (other than certain specified decisions which require a unanimous decision of the Members, including (without limitation) any decision to appoint or remove the auditors of the LLP and determine the remuneration of such auditors, approve the audited accounts of the LLP and the payment of distributions, to make a resolution for the voluntary winding-up of the LLP or to contribute to the losses of the LLP) the Members delegate all matters. Any decision by the LLP Management Board relating to waiving certain indemnities provided to the LLP, any transfer of the whole or any part of or any change in the LLP's business and any change to the LLP's name will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

For so long as any Covered Bonds are outstanding, each Member has agreed that it will not dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the Cash Manager on its behalf) or the Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full or appropriate provisions have been made for their payment.

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities which they incur as a result of the relevant Member's non-payment.

Following the appointment of a liquidator to the Seller or the disposal by the Seller of its interest in the shares of the Liquidation Member (other than with the consent of the LLP and, for as long as any Covered Bonds are outstanding, the Security Trustee), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only, the Seller shall cease to be a Member of the LLP and the Liquidation Member shall become entitled to appoint a Subsidiary of the Liquidation Member as a Member of the LLP.

The LLP Deed is governed by English law.

#### **Cash Management Agreement**

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Programme Date between the LLP, C&G in its capacity as the Cash Manager and the Security Trustee.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows* below;
- (d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure – Asset Coverage Test* below;
- (e) determining whether the Amortisation Test is satisfied on each Calculation Date following the service of a Notice to Pay in accordance with the LLP Deed, as more fully described under *Credit Structure – Amortisation Test* below;
- (f) on each London Business Day, determining whether the Pre-Maturity Liquidity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under *Credit Structure – Pre-Maturity Liquidity Test* below;

- (g) providing the FSA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required by the FSA in accordance with the RCB Regulations; and
- (h) preparation of the Asset Monitor and Investor Report for the Covered Bondholders, the Rating Agencies and the Bond Trustee.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement is governed by English law.

### Interest Rate Swap Agreement

Some of the Loans in the Portfolio from time to time will pay a variable rate of interest for a period of time that may (subject to the Servicer's ability to set the LLP Standard Variable Rate, as to which see *Summary of the Principal Documents – Mortgage Sale Agreement*) either be linked to the Lloyds TSB Standard Variable Rate or linked to an interest rate other than the Lloyds TSB Standard Variable Rate, such as Sterling LIBOR or a rate that tracks the Bank of England base rate. Other Loans will pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under each of the Covered Bond Swaps will be based on Sterling LIBOR and, in addition, the LLP's obligations to make interest payments under the outstanding Term Advances, or (following service on the LLP of a Notice to Pay or an LLP Acceleration Notice) the Covered Bond Guarantee, may be based on Sterling LIBOR. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) Sterling LIBOR,

the LLP, the Interest Rate Swap Provider and the Security Trustee will enter into an Interest Rate Swap in respect of all Series of Covered Bonds under the Interest Rate Swap Agreement.

Under the terms of the Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swap, arranging for its obligations under the Interest Rate Swap to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap, or taking such other action (as confirmed by the relevant Rating Agency) as will result in the rating of the Covered Bonds then outstanding following the taking of such action being maintained at, or restored to, the level it was immediately prior to such ratings downgrade. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances, including (without limitation) pursuant to any other events of default and termination events set out in the Interest Rate Swap Agreement (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under the Interest Rate Swap Agreement; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

The amount of this termination payment will be calculated and made in Sterling. Any termination payment made by the Interest Rate Swap Provider to the LLP in respect of the Interest Rate Swap will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a

replacement Interest Rate Swap Provider to enter into a replacement Interest Rate Swap with the LLP, unless a replacement Interest Rate Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Interest Rate Swap Provider in respect of a replacement Interest Rate Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Interest Rate Swap, unless such termination payment has already been made on behalf of the LLP. If the LLP or a Member of the LLP receives any Tax Credits in respect of an Interest Rate Swap prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, payments in respect of such Tax Credits will be used, to the extent provided for in the Interest Rate Swap Agreement, to reimburse the Interest Rate Swap Provider for any gross up in respect of any withholding or deduction made under the Interest Rate Swap Agreement.

Any Swap Collateral Excluded Amounts in respect of the Interest Rate Swap Agreement will be paid to the Interest Rate Swap Provider subject to the terms of the Interest Rate Swap Agreement.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider to the LLP under the Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap, the LLP shall not be obliged to gross up those payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the Interest Rate Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions, including, in certain circumstances, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected. If the LLP is required to sell Selected Loans in the Portfolio in order to remedy a breach of the Asset Coverage Test following service of an Asset Coverage Test Breach Notice or in order to provide liquidity in respect of any Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that are Hard Bullet Covered Bonds or has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to service of an LLP Acceleration Notice) following breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay or an LLP Acceleration Notice, then the LLP may either:

- (a) require, by written notice given not more than 20 and not less than 5 local Business Days in advance of the date of the relevant sale, that the Interest Rate Swap in connection with such Selected Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) request that the Interest Rate Swap be partially novated to the Purchaser of such Selected Loans, such that each Purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, recourse in respect of the LLP's obligations are limited to the Charged Property.

The Interest Rate Swap Agreement is (and each Interest Rate Swap thereunder will be) governed by English law.

### **Covered Bond Swap Agreements**

Where Covered Bonds are issued in a currency and/or on an interest rate basis different to the Interest Rate Swap, the LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee under the relevant Covered Bond Swap Agreement. Each Covered Bond Swap may be either a **Forward Starting Covered Bond Swap** or a **Non-Forward Starting Covered Bond Swap** and each will constitute the sole Transaction (as described in the relevant Covered Bond Swap) under a single **Covered Bond Swap Agreement** with each such Covered Bond Swap Provider (such Covered Bond Swap Agreements, together, the **Covered Bond Swap Agreements**). Where the LLP enters into a Forward Starting Covered Bond Swap, the Term Advances made under the Intercompany Loan will be made in Sterling, regardless of the currency of the relevant Series or Tranche, as applicable, of Covered Bonds.

Each Forward Starting Covered Bond Swap will provide a hedge (after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP



and/or realisation of the Security) against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Covered Bond Guarantee in respect of the Covered Bonds.

Each Non-Forward Starting Covered Bond Swap will provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds.

Under the Forward Starting Covered Bond Swaps, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date, after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, an amount equal to the relevant portion of the amounts that are payable by the LLP under the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will periodically pay to the Covered Bond Swap Provider on each Interest Payment Date, after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, an amount in Sterling calculated by reference to Sterling LIBOR plus a spread.

Under the Non-Forward Starting Covered Bond Swaps on the relevant Issue Date, the LLP will pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the LLP under the applicable Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay to the LLP the Sterling Equivalent of that amount. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will periodically pay to the Covered Bond Swap Provider an amount in Sterling calculated by reference to Sterling LIBOR plus a spread and, where relevant, the Sterling Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

However, under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the Issuer fails to pay the principal amount payable to the Covered Bondholders in respect of a Series of Covered Bonds on the Final Maturity Date of such Series and the Series has a period of extension (whereby the principal amount due on such series of Covered Bonds is deferred for up to one year), then the LLP will pay an amount to the Covered Bond Swap Provider by reference to Sterling LIBOR payable on the monthly Interest Payment Date and the Covered Bond Swap Provider will pay to the LLP on each monthly Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series of Covered Bonds.

Under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement, or taking such other action as will result in the rating of the Covered Bonds then outstanding following the taking of such action being maintained at, or restored to, the level it was at immediately prior to such ratings downgrade. In addition, if the net exposure of the LLP against the Covered Bond Swap Provider under the relevant Covered Bond Swap exceeds the threshold specified in the relevant Covered Bond Swap Agreement, the Covered Bond Swap Provider may be required to provide collateral for its obligations. A failure to take such steps will, subject to certain conditions, allow the LLP to terminate the Covered Bond Swap(s).

A Covered Bond Swap Agreement may also be terminated in certain other circumstances, including (without limitation) pursuant to any other events of default and termination events set out in the relevant Covered Bond Swap Agreement (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under such Covered Bond Swap Agreement; and
- upon the occurrence of an insolvency of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap, the LLP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in the termination currency specified in the relevant Covered Bond Swap Agreement. Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap, unless such termination payment has already been made on behalf of the LLP. If the LLP or a Member of the LLP receives any Tax Credits in respect of a Covered Bond Swap, payments in respect of such Tax Credits will be used, to the extent provided for in the relevant Covered Bond Swap Agreement, to reimburse the relevant Covered Bond Swap Provider for any gross up in respect of any withholding or deduction made under the relevant Covered Bond Swap Agreement.

Any Swap Collateral Excluded Amounts in respect of a Covered Bond Swap Agreement will be paid to the Covered Bond Swap Provider subject to the terms of the relevant Covered Bond Swap Agreement.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

The Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions, including, in certain circumstances, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Terms and Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

- (a) the Adjusted Required Redemption Amount for the sale of Selected Loans; and
- (b) the purchase price to be paid for any Covered Bonds purchased by the LLP in accordance with Condition 6.9.

Under any Covered Bond Swap Agreement, recourse in respect of the LLP's obligations will be limited to the Charged Property.

The Covered Bond Swap Agreements are (and each Covered Bond Swap thereunder, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee, the LLP will maintain with the GIC Provider the GIC Account and with the Account Bank a Transaction Account and (where appropriate) the Swap Collateral Account(s), which will be operated in accordance with the Cash Management Agreement,

the LLP Deed, the Deed of Charge and the relevant Swap Agreements. The GIC Provider has agreed to pay interest on the moneys standing to the credit of the GIC Account at specified rates determined in accordance with the Bank Account Agreement and the Guaranteed Investment Contract.

All amounts received from Borrowers in respect of Loans in the Portfolio will be paid into the GIC Account and credited to the Revenue Ledger or the Principal Ledger, as the case may be and as set out in the Cash Management Agreement. On each LLP Payment Date, as applicable, amounts required to meet the claims of the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred from the Revenue Ledger, the Principal Ledger, the Reserve Ledger or the Capital Account Ledger, as applicable, to the Transaction Account and applied by the Cash Manager pursuant to the Cash Management Agreement and in accordance with the Priorities of Payments described below under *Cashflows*.

The GIC Account, the Transaction Account and the Swap Collateral Accounts may be required to be transferred to an alternative bank in certain circumstances, including if the Account Bank fails to have any of the Account Bank Required Ratings.

The Bank Account Agreement is governed by English law.

### **Corporate Services Agreement**

The LLP, the Liquidation Member and Holdings have entered into a Corporate Services Agreement with Structured Finance Management Limited (as Corporate Service Provider) on the Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the LLP, the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

### **Issuer-ICSDs Agreement**

The Issuer has entered into an Issuer-ICSDs Agreement with Euroclear Bank S.A./N.V. and Clearstream Banking SA (the **ICSDs**) in respect of any Covered Bonds issued in NGCB form. The Issuer-ICSDs Agreement provides that the ICSDs will, in respect of any such NGCBs, maintain their respective portion of the issue outstanding amount through their records.

The Issuer-ICSDs Agreement is governed by English law.

### **Deed of Charge**

Pursuant to the terms of the Deed of Charge entered into on the Programme Date by the LLP, the Security Trustee and the other Secured Creditors, the obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first ranking fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (c) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of the Transaction Documents (other than the Deed of Charge and any Scottish Declaration of Trust) to which it is a party;
- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including the Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts;
- (f) a first floating charge over (i) all the assets and undertaking of the LLP governed by English law and not, from time to time, subject to any fixed charge in favour of the Security Trustee pursuant to the Deed of Charge and (ii) all the assets and undertaking of the LLP located in or governed by Scots law (whether or not subject to any fixed charge as aforesaid); and

- (g) an assignment by way of first fixed security (or to the extent not assignable, charges by way of first fixed charge) over all of its rights, title, interest and benefit in the CCA Trust Property.

In respect of the property, rights and assets referred to in paragraph (b) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge. In the event of the delivery of Scottish transfers pursuant to the Mortgage Sale Agreement, the LLP will deliver Scottish Sub-Securities in respect of the Scottish Loans and their related Scottish Mortgages then in the Portfolio to the Security Trustee.

#### *Release of Security*

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP and at the cost and expense of the Seller), release those Loans and their Related Security from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (i) in the case of the sale of Selected Loans, the Security Trustee provides its prior written consent to the terms of such sale as described under – *LLP Deed – Method of Sale of Selected Loans* above;
- (ii) the LLP provides a certificate to the Security Trustee that such sale of Loans and their Related Security has been made in accordance with the terms of the Transaction Documents; and
- (iii) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the Servicer, acting on behalf of the LLP and at the cost and expense of the Issuer) release that Loan and its Related Security from the Security created by and pursuant to the Deed of Charge on or prior to the date of the repurchase.

#### *Enforcement*

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to, and shall if so directed by the Bond Trustee (for so long as any Covered Bonds are outstanding), appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Tax Credit (including, for the avoidance of doubt, any amounts received by the LLP from a Member in respect of Tax Credits), Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amounts) received by the Security Trustee or any Receiver from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

#### *Governing Law*

The Deed of Charge is governed by English law (other than the assignation in security referred to in paragraph (b) above and any Scottish Supplemental Charge granted after the Programme Date pursuant and supplemental to the Deed of Charge and any Scottish Sub-Security which will, in each case, be governed by Scots law).

#### **Parent Support Deed**

Pursuant to the Parent Support Deed, Lloyds TSB Bank plc has undertaken to use its best efforts to procure that, for so long as C&G is the Servicer or the Cash Manager, C&G (or another company within the Lloyds Banking Group) shall perform its obligations under the Servicing Agreement and the Cash Management Agreement until:

- (a) termination of the Servicing Agreement or the Cash Management Agreement, in each case in accordance with the provisions thereof;
- (b) the appointment of a substitute servicer or cash manager, in accordance with the terms of the Servicing Agreement or the Cash Management Agreement; or
- (c) the obtaining by C&G (or any replacement Servicer and/or Cash Manager within the Lloyds Banking Group) of long-term, unguaranteed and unsecured credit ratings from each of the Rating Agencies of not less than Baa3, BBB- or BBB- respectively.

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until service of a Notice to Pay on the LLP following service by the Bond Trustee of an Issuer Acceleration Notice or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Programme which enhance the likelihood of timely and, as applicable, ultimate payments to Covered Bondholders, as follows:

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Liquidity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds outstanding at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following service of a Notice to Pay on the LLP;
- if the Issuer's short-term ratings fall below F1+ by Fitch or P-1 by Moody's, Available Revenue Receipts will be trapped in the Reserve Fund; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of LIBOR for one-month Sterling deposits less 0.20 per cent. or such other amount as the LLP and the GIC Provider may agree from time to time.

Certain of these factors are considered more fully in the remainder of this section.

### Covered Bond Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any payment obligation of the Issuer being accelerated pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) following the service of a Notice to Pay. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. However, should any payments made by the LLP under the Covered Bond Guarantee be subject to any withholding or deduction on account of taxes, duties, or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or by any authority therein or thereof having the power to tax, the LLP will not be obliged to pay any additional amount as a consequence.

See further *Summary of the Principal Documents – Trust Deed* as regards the terms of the Covered Bond Guarantee. See further *Cashflows – Guarantee Priority of Payments* as regards the payment of amounts payable by the LLP to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

### Pre-Maturity Liquidity Test

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Liquidity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine whether the Issuer is in compliance with the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds, and if it is not, it shall immediately notify the Members, the Seller and the Security Trustee thereof and if the Cash Manager makes such determination on the LLP's behalf, the Cash Manager shall immediately notify the LLP.

The Issuer will fail and be in breach of the **Pre-Maturity Liquidity Test** on a Pre-Maturity Liquidity Test Date if:

- (a) the Issuer's (i) long-term credit rating by Moody's is lower than A2; and (ii) short-term credit rating by Moody's is lower than P-1 and in either case the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months from the relevant Pre-Maturity Liquidity Test Date; or
- (b) the Issuer's short-term credit rating by Fitch is lower than F1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months from the relevant Pre-Maturity Liquidity Test Date.

Following a breach of the Pre-Maturity Liquidity Test in respect of a Series of Covered Bonds, the LLP shall offer to sell Selected Loans and their Related Security to Purchasers, subject to:

- (a) any Cash Capital Contribution made by the Members (other than the Liquidation Member) from time to time; and
- (b) any right of pre-emption in favour of the Seller pursuant to the terms of the Mortgage Sale Agreement,

provided that an Issuer Event of Default shall occur if the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Liquidity Test Breach Period, and the relevant parties have not taken the required actions (as described above) following that breach within the earlier to occur of (i) 10 Business Days from the date that the Seller and the LLP are notified of the breach of the Pre-Maturity Liquidity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds, such that by the end of such period, there shall be an amount equal to the Sterling Equivalent of the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Sterling Equivalent of the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds). The method for selling Selected Loans and their Related Security is described in *Summary of the Principal Documents - The LLP Deed - Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached* above. The proceeds of sale of Selected Loans and their Related Security and/or the proceeds of any Cash Capital Contribution as described above, will be recorded to the Pre-Maturity Liquidity Ledger or the relevant Capital Account Ledger(s), respectively, on the GIC Account.

In certain circumstances, Available Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in *Cashflows - Pre-Acceleration Revenue Priority of Payments* below.

Failure by the Issuer and/or the LLP to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds. If the Issuer fully repays the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Liquidity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds; or
- (b) the Issuer is not failing the Pre-Maturity Liquidity Test, but the LLP Management Board elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the LLP Management Board has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance and distribute any excess Available Principal Receipts back to the Members on dates other than LLP Payment Dates, subject to the LLP making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments. **Asset Coverage Test**

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate

Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds each Member of the LLP (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*), transfer in Substitution Assets or provide Cash Capital Contributions in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is not equal to, or greater than, the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of (i) other assets owned by the LLP, (ii) set-off on a Borrower's current or deposit accounts held with the Seller, (iii) set-off associated with drawings made by Borrowers under Flexible Loans, (iv) the potential carry cost if the Loans and their Related Security were sold and cash proceeds thereof were invested in the GIC Account until the maturity of the relevant Covered Bonds and (v) failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Sale Date. See further *Summary of the Principal Documents – LLP Deed – Asset Coverage Test*, above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and the Bond Trustee shall be entitled (and, in certain circumstances, may be required) to serve an Issuer Acceleration Notice. Following service of an Issuer Acceleration Notice, the Bond Trustee must serve a Notice to Pay on the LLP.

### **Amortisation Test**

The Amortisation Test is intended to ensure that if, following service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears, other assets held by the LLP and the potential carry cost if the Loans and their Related Security were sold and cash proceeds thereof were invested in the GIC Account until the maturity of the relevant Covered Bonds. See further *Summary of the Principal Documents – LLP Deed – Amortisation Test* above.

### **Reserve Fund**

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations cease to be rated F1+ by Fitch or P-1 by Moody's, the LLP will be required to credit Available Revenue Receipts to the Reserve Fund up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

The Reserve Fund Required Amount will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

The Seller may also direct the LLP to credit any Cash Capital Contributions it makes to the LLP to the Reserve Ledger. The balance on the Reserve Ledger in excess of the Reserve Fund Required Amount will form part of Available Revenue Receipts and be applied accordingly.



## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay or an LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment (whether under a corresponding Term Advance or otherwise) from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) for so long as an Asset Coverage Test Breach Notice remains outstanding, but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (c) following service of a Notice to Pay, but prior to service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings in respect of the LLP; and
- (d) following service of an LLP Acceleration Notice, the realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

### **Allocation and distribution of Available Revenue Receipts whilst no Asset Coverage Test Breach Notice is outstanding and prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security and whilst amounts are outstanding in respect of the Covered Bonds, Available Revenue Receipts shall be applied as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP, or the Cash Manager on its behalf, shall calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date;
- (b) the Reserve Fund Required Amount; and
- (c) where the Pre-Maturity Liquidity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the Pre-Maturity Liquidity Test Breach Period, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Sterling Equivalent of the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (after deducting from the balance standing to the credit of the Pre-Maturity Liquidity Ledger such amounts as are then required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

### *Pre-Acceleration Revenue Priority of Payments*

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger and the Reserve Ledger, as applicable, to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments described below (taking into account any Available Revenue Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security and whilst amounts are outstanding in respect of Covered Bonds, Available Revenue Receipts as calculated on the immediately preceding Calculation Date shall be applied by the LLP (or the Cash Manager on its behalf) on each LLP Payment Date (except for amounts due to the Bond Trustee and the Security Trustee or to other third parties by the LLP or the Issuer under paragraphs (a) and (b) or Third Party Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-**

**Acceleration Revenue Priority of Payments)** (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts then due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereto to the extent provided therein; and
  - (ii) all amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Security Trustee (including remuneration payable to it) under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for Taxes and stamp duties; and
  - (ii) any remuneration and other amounts (including costs and expenses) due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable amounts in respect of VAT (or other similar Taxes) thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon as provided therein;
  - (iii) amounts (if any) then due and payable in the immediately succeeding LLP Payment Period to the Account Bank and GIC Provider (including costs) pursuant to the terms of the Bank Account Agreement or to the GIC Provider pursuant to the Guaranteed Investment Contract together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iv) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (v) amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees); and
  - (vi) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in Clause (i) below), together with applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such

amounts have been paid out of any premium received from the relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;

- (e) *fifth*, in or towards payment *pro rata* or *pari passu* on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts received or receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:
  - (i) any amounts then due or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) any amounts due or to become due and payable in the next LLP Payment Period (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (f) *sixth*, if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger in accordance with the LLP Deed, towards a credit to the GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:
  - (i) the Sterling Equivalent of the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Sterling Equivalent of the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (g) *seventh*, if a Servicer Termination Event has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Termination Event is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (h) *eighth*, in or towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (k) *eleventh*, to pay all remaining Available Revenue Receipts except for an amount equal to the profit to be paid to the Members in accordance with item (l) below to the Seller in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP; and
- (l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) by way of fees and as their profit for their respective interests as Members in the LLP.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments

(other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to each relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement or, as the case may be, to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and remains outstanding in which case the provisions under *Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and Prior to Service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security* shall apply.

Any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and remains outstanding.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement and any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with item (e)(ii) above or the preceding two paragraphs will be credited to the Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

For the avoidance of doubt, an Asset Coverage Test Breach Notice will be "outstanding" from the time it is served on the LLP until the time it is revoked.

**Allocation and distribution of Available Principal Receipts whilst no Asset Coverage Test Breach Notice is outstanding and prior to the service of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Principal Receipts will be applied as described below.

On each Calculation Date, the LLP (or the Cash Manager on its behalf) shall calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payment or credits described below (taking into account any Available Principal Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Principal Receipts standing to the credit of the GIC Account.

If an LLP Payment Date is an Interest Payment Date, then distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made Scheduled Interest and/or principal payments under the Covered Bonds on that Interest Payment Date save as provided in the LLP Deed.

*Pre-Acceleration Principal Priority of Payments*

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than those Cash Capital Contributions made from time to time by the Seller in its capacity as Member which are to be applied as Revenue Receipts) as calculated on the immediately preceding Calculation Date will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments or provisions or credits in the following order of priority

(the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full):

- (a) *first*, if the Pre-Maturity Liquidity Test is breached in respect of a Series of Hard Bullet Covered Bonds, to credit all Principal Receipts to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:
  - (i) the Sterling Equivalent of the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Sterling Equivalent of the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (b) *second*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to acquire Substitution Assets in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP will be in compliance with the Asset Coverage Test on the next Calculation Date;
- (c) *third*, to deposit the remaining Available Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP will be in compliance with the Asset Coverage Test on the next Calculation Date;
- (d) *fourth*, in or towards repayment *pro rata* or *pari passu* on the LLP Payment Date or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and, if applicable, any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine):
  - (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) any amounts (in respect of principal) due or to become due and payable, *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (e) *fifth*, to acquire (or to provide for the acquisition of) New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to acquire Substitution Assets and/or credit the GIC Account as the Cash Manager may determine; and
- (f) *sixth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pro rata* and *pari passu* to each Member (other than the Liquidation Member) in proportion to each such Member's Capital Contribution as calculated on the immediately preceding Calculation Date (or, if Lloyds TSB Bank plc is not then a Member, towards repayment of the Issuer Subordinated Loan) in accordance with the LLP Deed.

Any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, unless an Asset Coverage Test Breach Notice has been served on the LLP and remains outstanding. Any amounts of principal (other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with

paragraph (c) above or the preceding sentence will be credited to the Principal Ledger on the relevant LLP Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Any Cash Capital Contributions made by Lloyds TSB Bank plc (in its capacity as Member) other than those deemed to be Revenue Receipts or Principal Receipts from time to time shall, unless an Asset Coverage Test Breach Notice has been served and remains outstanding, be distributed to Lloyds TSB Bank plc as a Capital Distribution.

**Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and prior to service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

For so long as an Asset Coverage Test Breach Notice is outstanding, but prior to the service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, respectively, save that, whilst any Covered Bonds remain outstanding, no monies will be applied under paragraph (e)(ii) (to the extent only that such amounts are payable to the Members), (j), (k) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii), (e) or (f) of the Pre-Acceleration Principal Priority of Payments.

**Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay**

At any time after service of a Notice to Pay, but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP, and/or realisation of the Security, and whilst amounts are outstanding in respect of Covered Bonds, all Available Revenue Receipts and Available Principal Receipts standing to the credit of the LLP Accounts will be applied as described below under *Guarantee Priority of Payments*.

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

The LLP (or the Cash Manager on its behalf) shall create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) and (f) of the *Guarantee Priority of Payments* below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled payment dates therefor.

*Guarantee Priority of Payments*

As set out in the Cash Management Agreement, if a Notice to Pay is served on the LLP in connection with the Pre-Maturity Liquidity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in *Credit Structure — Pre Maturity Liquidity*). Subject thereto, on each LLP Payment Date after the service on the LLP of a Notice to Pay but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP and/or realisation of the Security, the LLP (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts as calculated on the immediately preceding Calculation Date to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Bond Trustee (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein; and

- (ii) all amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Security Trustee (including remuneration payable to it) under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the Agency Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein; and
  - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer pursuant to the terms of the Servicing Agreement in the immediately succeeding LLP Payment Period together with applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager pursuant to the terms of the Cash Management Agreement in the immediately succeeding LLP Payment Period together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Bank and the GIC Provider (including any costs) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (v) amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and
  - (vi) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (k) below), together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards payment of any amount due to the Interest Rate Swap Provider (including any termination payment due or to become due and payable by the LLP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
  - (i) the amounts due or to become due and payable in the immediately succeeding LLP Payment Period to the relevant Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant

replacement Covered Bond Swap Provider) pursuant to the terms of the relevant Covered Bond Swap Agreement; and

- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the relevant Covered Bond Swap Providers) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Series Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:

- (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but for the avoidance of doubt excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the **Extended Covered Bonds**) and any relevant Covered Bonds Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:

- (i) the amounts (in respect of principal) due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to each relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but for the avoidance of doubt excluding any Excluded Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,



but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (g) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (j) *tenth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds) any remaining monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (k) *eleventh*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and, if Lloyds TSB Bank plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (l) *twelfth*, thereafter any remaining moneys will be applied in accordance with Clause 21 of the LLP Deed.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreements or, as the case may be, to the Issuer in respect of Scheduled Interest that is Due for Payment (or will become Due for Payment) under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap Agreement (whether or not in respect of principal) on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments of interest or principal, as the case may be, in respect of the relevant Series of Covered Bonds under the Covered Bond Guarantee.

Any amounts (other than Swap Collateral Excluded Amounts) received under the Interest Rate Swap Agreement or any Covered Bond Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (e), (f) or (g) above or the preceding two paragraphs will be credited to the Revenue Ledger or the Principal Ledger (as appropriate) on the GIC Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such monies shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

### **Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps and Tax Credits received in respect of Swaps**

If the LLP receives any termination payment from a Swap Provider in respect of a Swap, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider to enter into a replacement Swap with the LLP, unless a replacement Swap has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap, unless such termination payment has already been made on behalf of the LLP.

### **Application of moneys received by the Security Trustee following service of an LLP Acceleration Notice and enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP**

Under the terms of the Deed of Charge, all moneys received or recovered by the Security Trustee or any Receiver (other than any Tax Credit, Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amount) following the enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, shall be held on trust to be applied (save to the extent required otherwise by law), in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to:
    - (A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein; and
    - (B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
  - (ii) any remuneration then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iii) amounts in respect of:
    - (A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement, together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
    - (B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
    - (C) amounts due to the Account Bank and the GIC Provider (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract, together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein; and
    - (D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;

- (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
- (v) all amounts due and payable:
  - (A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (B) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from any Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under sub-paragraph (B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bond Swap under sub-paragraph (A) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;
- (c) *third*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (d) *fourth*, in or towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (e) *fifth*, in or towards payment to the Members (and, if Lloyds TSB Bank plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed.

If the LLP receives any Tax Credits in respect of a Swap Agreement following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, such Tax Credits will be used to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap Agreement. Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap Agreement will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the Seller.

The above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In particular, costs properly incurred by a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation) and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further *Risk Factors – Expenses of insolvency officeholders*.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consist of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement*.

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loan and its Related Security redeemed in full on or before the First Sale Date), and all rights, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal monies, interest and costs and the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MH/CP Documentation, guarantees or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the applicable Mortgage Conditions;
- (d) all the estate and interest in the relevant Properties vested in the Seller;
- (e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof; and
- (f) the proceeds of all claims made by or on behalf of the Seller or to which the Seller is entitled under the Block Buildings Insurance and the Properties in Possession Cover in relation to any such Loan.

**New Portfolio** means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Sale Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Sale Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above.

See also the following risk factors under *Risk Factors – Risk Factors relating to the Covered Bonds – Limited description of the Portfolio, Risk Factors relating to the LLP, including the ability of the LLP to fulfil its obligations in relation to the Covered Bond Guarantee – Maintenance of Portfolio and Changes to the Lending Criteria of the Seller since the time of Origination*.

## DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended (the **RCB Regulations**) and the corresponding implementation provisions, set out in the new RCB Sourcebook), came into force in the UK on 6 March 2008 and were subsequently amended by the Regulated Covered Bonds (Amendment) Regulations (SI 2008/1714) which came into force on 22 July 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. Notwithstanding the intention behind the new framework, the FSA will not notify the European Commission of an issuer's inclusion in the register of issuers, regulated covered bonds included in the register of regulated covered bonds and the status of the guarantees offered in respect of such bonds, until the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made covered bonds are not UCITS compliant.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above).

The FSA will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

On 4 January 2010, the Issuer was admitted to the register of issuers and the Programme (and the Covered Bonds issued previously under the Programme) was admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations. The FSA has indicated that notification of such registration and certain other matters was made by the FSA to the European Commission on 4 January 2010. Accordingly, in principle, the Covered Bonds are UCITS Directive-compliant. Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances with the result that such issuer may not make further issues under the Programme but the FSA is restricted from removing a regulated covered bond from the register of regulated covered bonds before the expiry of the whole period of validity of the relevant bond.

See also *Risk Factors – UK regulated covered bond regime* and – *Expenses of insolvency officeholders*.

## **DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS**

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland under the Limited Liability Partnerships Act 2000 (the **LLPA**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### **Corporate characteristics**

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 2006, the Limited Liability Partnerships Regulations 2001 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships (Amendment) Regulations 2005 so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

### **Partnership characteristics**

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members' agreement is a private document and there is no obligation to file it at Companies House.

### **Taxation**

Limited liability partnerships are tax transparent except in the case of value added tax (in respect of which a limited liability partnership can register for VAT in its own name) and in certain winding-up proceedings. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are taxed in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are taxed in relation to the business of that partnership.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct Participants or Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct Participants and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participants or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed

by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (**Omnibus Proxy**) to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participants or Indirect Participants and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Issuer or the Principal Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under *Subscription and Sale and Transfer and Selling Restrictions*.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

#### **Book-entry Ownership of and Payments in respect of DTC Covered Bonds**

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership



will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

It should be noted that DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars in respect of a Registered Global Covered Bond accepted by DTC, payment will be made to the Exchange Agent and the Exchange Agent will (in accordance with express written instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account(s).

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Direct Participants or Indirect Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Direct Participants or Indirect Participants and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Agents or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under *Subscription and Sale and Transfer and Selling Restrictions*, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Tranche, transfers of Covered Bonds of such Tranche between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and

accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs practice and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and Coupons and may not apply to certain classes of persons such as dealers to whom special rules may apply. Any Covered Bondholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

#### *Payment of interest by the Issuer in respect of the Covered Bonds*

While the Covered Bonds are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**), payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

The Issuer, provided that it is and continues to be a bank within the meaning of section 991 of the Act, and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 878 of the Act, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest will not be regarded as being paid in the ordinary course of business where the borrowing relates to the capital structure of the Issuer. The borrowing will be regarded as relating to the capital structure of the Issuer if it conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the UK Financial Services Authority, whether or not the borrowing actually counts towards tier 1, 2 or 3 capital for regulatory purposes.

Interest on the Covered Bonds may also be paid without withholding or deduction on account of United Kingdom income tax where, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bonds is paid reasonably believes) either:

- (i) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (ii) that the payment is made to one of the bodies or persons set out in sections 935 to 937 of the Act,

provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Covered Bonds with a maturity date of less than a year after the issue date may be paid without withholding or deduction for or on account of United Kingdom income tax provided that interest is not payable in respect of a debt which is intended to be outstanding for a year or more.

In all other cases, an amount must generally be withheld from payments of yearly interest on the Covered Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue & Customs under an applicable double taxation treaty.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest. HM Revenue & Customs also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Covered Bonds which are deeply discounted securities for the purposes of the Income Tax (Trading and other Income) Act 2005 to or receives such amounts for the benefit of an individual. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HM Revenue & Customs with the tax authorities of the jurisdictions in which the Covered Bondholder is resident for tax purposes. However, in relation to amounts payable on the redemption of such Covered Bonds, HM Revenue & Customs' published practice indicates that HM Revenue &

Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2010.

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Covered Bonds (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Covered Bonds are attributable (and where that person is a company, unless that person carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Covered Bonds are attributable). There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax (for example, if the Covered Bonds lost their listing), Covered Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an applicable double taxation treaty.

Covered Bondholders should recognise that the provisions relating to additional amounts referred to in *Terms and Conditions of the Covered Bonds – Taxation* would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

#### *Payments by the LLP*

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds), such payment may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. The LLP will not be required to pay any additional amounts in the event of a payment being made net of any withholding or deduction.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, each Member State of the European Economic Area is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead operate a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved amendments to this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

The attention of Covered Bondholders is drawn to Condition 7(d) (*Taxation*) and to page 74 in *Risk Factors*.

#### **U.S. Federal Income Taxation**

**TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, COVERED BONDHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED**

**UPON, AND CANNOT BE RELIED UPON, BY COVERED BONDHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) COVERED BONDHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a Covered Bondholder that is a citizen or individual resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the Covered Bond (a **U.S. holder**). This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change possibly with retroactive effect. This summary deals only with U.S. holders that will hold Covered Bonds as capital assets, and it does not address tax considerations applicable to Covered Bondholders that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Covered Bonds as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction or persons that have a "functional currency" other than the U.S. dollar.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Covered Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisors as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Covered Bonds.

Any special U.S. federal income tax considerations relevant to a particular issue of Covered Bonds will be provided in the applicable Final Terms. This summary addresses only Covered Bonds that will be treated as debt for U.S. federal income tax purposes.

Investors should consult their own tax advisors to determine the tax consequences to them of acquiring, owning and disposing of Covered Bonds, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

#### *Payments of Interest*

Payments of "qualified stated interest" (as defined below under *Original Issue Discount*) on a Covered Bond will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder's method of tax accounting).

If such payments of interest are made with respect to a Covered Bond denominated in a currency other than U.S. dollars (a **Foreign Currency Covered Bond**), the amount of interest income realized by a U.S. holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt, regardless of whether the payment in fact is converted into U.S. dollars on such date. A U.S. holder that uses the accrual method of accounting for tax purposes will accrue interest income on the Foreign Currency Covered Bond in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. holder's taxable year), or, at the accrual-basis U.S. holder's election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). A U.S. holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the **IRS**). A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Covered Bond if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Any such foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bond.

#### *Purchase, Sale and Retirement of Covered Bonds*

A U.S. holder's tax basis in a Covered Bond generally will equal the cost of such Covered Bond to such holder, increased by any amounts includible in income by the holder as original issue discount and market discount, and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest made on such Covered Bond. In the case of a Foreign Currency Covered Bond, the cost

to a U.S. holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash-basis U.S. holder (and, if it so elects, an accrual-basis U.S. holder) will determine the U.S. dollar value of the cost of such Foreign Currency Covered Bond by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Foreign Currency Covered Bond in respect of original issue discount, market discount and premium denominated in the Specified Currency will be determined in the manner described under *Original Issue Discount* and *Premium and Market Discount* below. The conversion of U.S. dollars to the Specified Currency and the immediate use of such currency to purchase a Foreign Currency Covered Bond generally will not result in taxable gain or loss for a U.S. holder.

Upon the sale, exchange, retirement or other disposition of a Covered Bond, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any accrued qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Covered Bond. If a U.S. holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Covered Bond, the amount realized will be the U.S. dollar value of the Specified Currency received, calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash-basis U.S. holder and, if it so elects, an accrual-basis U.S. holder will determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. This election available to accrual-basis U.S. holders in respect of the purchase and sale of Foreign Currency Covered Bonds traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Covered Bonds (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the Covered Bond for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income.

Gain or loss recognized by a U.S. holder on the sale, exchange or retirement of a Foreign Currency Covered Bond generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Foreign Currency Covered Bond. Such foreign currency gain or loss will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bond.

#### *Original Issue Discount*

If the Issuer issues Covered Bonds at a discount from their stated redemption price at maturity, and such discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Covered Bonds and the number of full years to their maturity, the Covered Bonds will be **Original Issue Discount Covered Bonds**. The difference between the issue price and the stated redemption price at maturity of the Covered Bonds will be the **original issue discount (OID)**. The **issue price** of the covered bonds will be the first price at which a substantial amount of the Covered Bonds are sold to the public (i.e., excluding sales of Covered Bonds to underwriters, placement agents, wholesalers, or similar persons). The **stated redemption price at maturity** will include all payments under the Covered Bonds other than payments of qualified stated interest (as defined below).

U.S. holders of Original Issue Discount Covered Bonds generally will be subject to the special tax accounting rules for obligations issued with OID provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the **OID Regulations**). U.S. holders of such Covered Bonds should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an Original Issue Discount Covered Bond, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the **daily portions** of OID on the Original Issue Discount Covered Bond for all days during the taxable year that the U.S. holder owns such Covered Bond. The daily portions of OID on an Original Issue Discount Covered Bond are determined by allocating to each day in any accrual period a rateable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Covered Bond, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Covered Bond allocable to each accrual period is determined by

(a) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Covered Bond at the beginning of the accrual period by the "**yield to maturity**" of such Covered Bond (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The yield to maturity is the discount rate that causes the present value of all payments on the Original Issue Discount Covered Bond as of its original issue date to equal the issue price of such Covered Bond. The **adjusted issue price** of an Original Issue Discount Covered Bond at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Covered Bond in all prior accrual periods. The term **qualified stated interest** generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Covered Bond at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices.

In the case of an Original Issue Discount Covered Bond that is a Floating Rate Covered Bond, both the **yield to maturity** and **qualified stated interest** will generally be determined for these purposes as though the Original Issue Discount Covered Bond will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Covered Bond on its date of issue or, in the case of certain Floating Rate Covered Bonds, the rate that reflects the yield that is reasonably expected for the Covered Bond. (Additional rules may apply if interest on a Floating Rate Covered Bond is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. holder in respect of an Original Issue Discount Covered Bond denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A U.S. holder generally may make an irrevocable election to include in its income its entire return on a Covered Bond (i.e., the excess of all remaining payments to be received on the Covered Bond, including payments of qualified stated interest, over the amount paid by such U.S. holder for such Covered Bond) under the constant-yield method described above. For Covered Bonds purchased at a premium or bearing market discount in the hands of the U.S. holder, the U.S. holder making such election will also be deemed to have made the election (discussed below in *Premium and Market Discount*) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond, a U.S. holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. holder's taxable year) or, at the U.S. holder's election (as described above under *Payments of Interest*), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). Because exchange rates may fluctuate, a U.S. holder of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Covered Bond denominated in U.S. dollars. All payments on an Original Issue Discount Covered Bond (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof, with payments attributed first to the earliest-accrued OID), and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Covered Bond), a U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Covered Bond, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. holder of an Original Issue Discount Covered Bond that purchases such Covered Bond at a cost less than its remaining redemption amount (as defined below), or an initial U.S. holder that purchases an Original Issue Discount Covered Bond at a price other than such Covered Bond's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the Original Issue Discount Covered Bond at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The remaining redemption amount for an Original Issue Discount Covered Bond is the total of all future payments to be made on such Covered Bond other than payments of qualified stated interest.

Floating Rate Covered Bonds generally will be treated as variable rate debt instruments under the OID Regulations. Accordingly, the stated interest on a Floating Rate Covered Bond generally will be treated as qualified stated interest, and such a Covered Bond will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Covered Bond does not qualify as a variable rate debt instrument, such Covered Bond will be subject to special rules (the **Contingent Payment Regulations**) that govern the tax treatment of debt obligations that provide for contingent payments (Contingent Debt Obligations). A detailed description of the tax considerations relevant to U.S. holders of any such Covered Bonds will be provided in the applicable Final Terms.

If certain of the Covered Bonds are subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Final Terms, such Covered Bonds (particularly Original Issue Discount Covered Bonds) may be subject to special rules that differ from the general rules discussed above. Purchasers of Covered Bonds with such features should carefully examine the applicable Final Terms and should consult their own tax advisors with respect to such Covered Bonds since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Covered Bonds.

#### *Premium and Market Discount*

A U.S. holder of a Covered Bond that purchases the Covered Bond at a cost greater than its remaining redemption amount (as defined above) will be considered to have purchased the Covered Bond at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Covered Bond. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in a Covered Bond by the amount of the premium amortized during its holding period. Original Issue Discount Covered Bonds purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Covered Bond, a U.S. holder should calculate the amortization of such premium in the Specified Currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Covered Bond based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Covered Bond and the exchange rate on the date on which the U.S. holder acquired the Covered Bond. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder's tax basis when the Covered Bond matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Covered Bond to maturity generally will be required to treat the premium as capital loss when the Covered Bond matures.

If a U.S. holder of a Covered Bond purchases the Covered Bond at a price that is lower than its remaining redemption amount or, in the case of an Original Issue Discount Covered Bond, its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Covered Bond will be considered to have **market discount** in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Covered Bond generally will be treated as ordinary income to the extent of the market discount that accrued on the Covered Bond while it was held by such U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Covered Bond. In general terms, market discount on a Covered Bond will be treated as accruing rateably over the term of such Covered Bond or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Covered Bond will be accrued by a U.S. holder in the Specified Currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Covered Bond is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a rateable or constant-yield basis) in lieu of treating a portion of any gain realized on a sale of a Covered Bond as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Covered Bond that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.



### *Short-Term Covered Bonds*

The rules set forth above will also generally apply to Covered Bonds having maturities of not more than one year (**Short-Term Covered Bonds**), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Covered Bond as qualified stated interest. Thus, all Short-Term Covered Bonds will be Original Issue Discount Covered Bonds. OID will be treated as accruing on a Short-Term Covered Bond rateably or, at the election of a U.S. holder, under a constant yield method.

Second, a U.S. holder of a Short-Term Covered Bond that uses the cash method of tax accounting, that is not a bank, securities dealer, regulated investment company or common trust fund, and that does not identify the Short-Term Covered Bond as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the Short-Term Covered Bond until the maturity of such Covered Bond or its earlier disposition in a taxable transaction. In addition, such a U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Short-Term Covered Bond as ordinary income to the extent such gain does not exceed the OID accrued with respect to such Covered Bond during the period the U.S. holder held the Covered Bond. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Covered Bond may elect to accrue original issue discount into income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Covered Bond in income on a current basis.

Third, any U.S. holder (whether cash or accrual basis) of a Short-Term Covered Bond can elect to accrue the "acquisition discount", if any, with respect to such Covered Bond on a current basis. If such an election is made, the OID rules will not apply to the Short-Term Covered Bond. Acquisition discount is the excess of the remaining redemption amount of the Short-Term Covered Bond at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing rateably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Covered Bond.

### *Index-Linked Covered Bonds and Other Covered Bonds Providing for Contingent Payments*

The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. holders of any Contingent Debt Obligations will be provided in the applicable Final Terms.

### *Information Reporting and Backup Withholding*

The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain U.S. holders of Covered Bonds. In addition, certain U.S. holders may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification number or certification of exempt status to the Paying Agent or otherwise comply with the applicable backup withholding requirements. Persons holding Covered Bonds who are not U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding tax.

The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. holders should consult their tax advisors as to their qualification for exemption from information reporting and/or backup withholding.

### **ERISA Considerations**

The Covered Bonds should be eligible for purchase by employee benefit plans and other plans subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of section 4975 of the Code and by governmental, church and non-U.S. plans that are subject to state, local, other federal

law of the United States or non-U.S. law that is substantially similar to ERISA or section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on employee benefit plans (as defined in section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under *Risk Factors*.

Section 406 of ERISA and section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest or disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions contemplated by the Transaction Documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of section 406 of ERISA or section 4975 of the Code may arise if any of the Covered Bonds is acquired or held by a Plan with respect to which the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of section 406 of ERISA and section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Covered Bonds and the circumstances under which such decision is made. Included among these exemptions are section 408(b)(17) of ERISA and section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Covered Bonds.

Each purchaser and subsequent transferee of any Covered Bond will be deemed by such purchase or acquisition of any such covered bond to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Covered Bond through and including the date on which the purchaser or transferee disposes of such Covered Bond, either that (a) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or non-U.S. plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code or (b) its purchase, holding and disposition of such Covered Bond will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. section 2510.3-101, as modified by section 3(42) of ERISA (the **Plan Asset Regulation**) describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an **equity interest** of an entity that is neither a **publicly-offered security** nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in form debt may be considered an **equity interest** if it has **substantial equity features**. If the Issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's

investment in any of the Covered Bonds, such plan assets would include an undivided interest in the assets held by the Issuer and transactions by the Issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and section 4975 of the Code. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Covered Bonds should not be treated as **equity interests** for the purposes of the Plan Asset Regulation.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Covered Bonds should determine whether, under the documents and instruments governing the Plan, an investment in such Covered Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Covered Bonds (including any governmental plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any substantially similar state, local or other federal law).

The sale of any Covered Bonds to a Plan is in no respect a representation by the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Any further ERISA considerations with respect to Covered Bonds may be found in the relevant Final Terms.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealer has, pursuant to a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 20 October, 2008, agreed with the Issuer and the LLP a basis upon which such Dealer may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by the Dealer will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds* above. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc, but the Issuer may appoint other dealers from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis.

The Issuer may pay each relevant Dealer commissions as agreed in connection with the sale of any Covered Bonds. In the Programme Agreement, the Issuer has agreed to reimburse and indemnify the relevant Dealer for certain of its expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The relevant Dealer is entitled to be released and discharged from its obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations stabilising activities may only be carried on by the stabilising manager named in the applicable Final Terms and only for a period ending on the earlier of 30 days following the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the allotment of the relevant Tranche of Covered Bonds.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person;
- (b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, that neither the Covered Bonds nor the Covered Bond Guarantee has been or will be registered under the Securities Act or any applicable U.S. State securities laws and that the Covered Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;
- (c) it agrees that neither the Issuer nor the LLP has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;
- (d) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the

Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing the Covered Bonds for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (e) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above, if then applicable;
- (f) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (g) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

- (h) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the Issue Date), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Covered Bonds represented by a Regulation S Global Covered Bond and Definitive Regulation S Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ISSUE DATE, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

The relevant Dealer may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the relevant Dealer may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

## **Selling Restrictions**

### ***United States***

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions

permitted by U.S. tax regulations. The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Programme Agreement. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (**Distribution Compliance Period**), and except in either case in accordance with Regulation S under the Securities Act. The Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bond during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of any Regulation S Covered Bond within the United States by any dealer (who is not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Programme Agreement provides that selected Dealers, through their selling agents which are registered broker-dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act.

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Each issuance of Variable Interest Covered Bonds will be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms. The Issuer or, as the case may be, each relevant Dealer of an issue will agree that it will offer, sell or deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

#### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Covered Bonds specify that an offer of those Covered Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (b) to (e) above shall require the Issuer or any relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### ***United Kingdom***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the LLP or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

### ***Japan***

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the **FIEA**) and the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***The Netherlands***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any Covered Bonds having a denomination of less than €50,000 or its equivalent in another currency will only be offered in The Netherlands to qualified investors as defined in the Financial Supervision Act (*Wet op het financieel toezicht*) and the decrees issued pursuant thereto.

### ***Republic of Italy***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:



- (a) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and the relevant implementing regulations of the Italian Securities Exchange Commission (**CONSOB**) as amended from time to time; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Furthermore, the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**);
- (ii) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in accordance with any other applicable laws and regulations including those imposed by CONSOB or other Italian authority.

### **Germany**

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it shall only offer or sell Covered Bonds in the Federal Republic of Germany in compliance with the provisions of the German Securities Prospectus Act (*Wertpapier- prospektgesetz*) of 22 June 2005, or any other laws applicable in the Federal Republic of Germany governing the offer and sale of securities. The Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree that it shall not offer or sell the Covered Bonds in the Federal Republic in Germany in a manner which could result in the Issuer being subject to any licence requirement under the German Banking Act (*Kreditwesengesetz*).

### **Republic of France**

- (iv) The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:
  - (i) it has only made and will only make an offer of Covered Bonds to the public in the Republic of France in the period beginning (i) when a prospectus in relation to the Covered Bonds has been approved by the *Autorité des marchés financiers* (**AMF**), on the date of publication of such prospectus or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive No. 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the Prospectus, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or
  - (ii) it has not offered or sold and will not offer or sell, directly or indirectly, Covered Bonds to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the relevant Final Terms or any other offering material relating to the Covered Bonds, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

### **General**

These selling restrictions may be modified by the agreement of the Issuer and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Prospectus.

The Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes this Prospectus, any other offering material or any Final Terms, and that it will, obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, regulations or directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any Dealer shall have responsibility therefor.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any Dealer represents that the Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment, implementation and operation of the Programme and the issue of Covered Bonds. The establishment, implementation and operation of the Programme and the issue of Covered Bonds were authorised by resolutions of the Board of Directors of the Issuer dated 25 January 2008. The establishment, implementation and operation of the Programme and the giving of the Covered Bond Guarantee was duly confirmed and authorised by a resolution of the LLP Management Board dated 15 October 2008. The current update of the Programme has been duly authorised by a resolution of the Board of Directors dated 4 August 2009.

### Listing of Covered Bonds

The listing of the Covered Bonds on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued or on such later date as the Issuer may agree with the relevant Dealer, subject only (in the case of a listing upon issue) to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 7 June 2010. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

### Documents Available

For so long as Covered Bonds may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the office of Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;
- (ii) the Trust Deed (which includes the Guarantee and the forms of the Global Covered Bonds, the definitive Covered Bonds, the Coupons, the Receipts and the Talons);
- (iii) the Agency Agreement;
- (iv) the Issuer's Annual Report and Accounts 2009;
- (v) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 97 to 181 and 96, respectively, of the Company's 2008 Annual Report;
- (vi) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2009, together with the audit report thereon, as set out on pages 127 to 248 and 126, respectively, of the Company's Annual Report and Accounts 2009;
- (vii) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2008, together with the audit thereon, as set out on pages 11 to 107 and 9 to 10, respectively, of the Issuer's Annual Report and Accounts 2008;
- (viii) HBOS plc's Annual Report and Accounts 2009;
- (ix) the audited consolidated annual financial statements of HBOS for the financial year ended 31 December 2008, together with the audit report thereon, as set out on pages 41 to 45, 48 to 140 and 40, respectively, of HBOS's Annual Report and Accounts 2008;
- (x) the following sections of the Company's 2009 Annual Report:
  - (a) the portion of the risk governance section as set out on pages 57 to 62 together with Table 1.3 and the paragraphs under the heading "Risk Drivers" on page 63 thereof;
  - (b) the portion of the corporate governance section set out on pages 100 to 102 thereof;
  - (c) the fourth complete paragraph on page 19, together with note 12 on page 159;

- (d) the first sentence of the third complete paragraph on page 21;
- (xi) the interim management statement of the Company for the three months ended 31 March 2010 published on 27 April 2010 save for the second sentence of the last paragraph under "Good trading performance with guidance reaffirmed";
- (xii) each Final Terms (save that Final Terms relating to a Covered Bond which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Covered Bonds and identity); and
- (xiii) a copy of this Prospectus together with any supplemental Prospectus or further Prospectus and any documents incorporated by reference.

The Prospectus and the Final Terms for Covered Bonds that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

### **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In addition, the Issuer may make an application with respect to any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. Acceptance by DTC of Covered Bonds of each Tranche of a Registered Covered Bond Series issued by the Issuer will be confirmed in the applicable Final Terms. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Covered Bonds will be set out in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041-0099. The address of any alternative clearing system will be specified in the applicable Final Terms.

### **Significant or Material Change**

Save for the Group Reorganisation, there has been no significant change in the financial or trading position of Lloyds TSB Bank Group since 31 December 2009, the date to which Lloyds TSB Bank Group's last published audited financial information was prepared. There has been no material adverse change in the prospects of Lloyds TSB Bank Group since 31 December 2009.

There has been no significant change in the financial or trading position of the LLP since the date of its incorporation and there has been no material adverse change in the prospects of the LLP since the date of its incorporation.

### **Litigation**

Save as disclosed in the section entitled *Lloyds Banking Group - Legal Actions* (except for the first complete sentence thereunder and the subsection entitled *Other Legal Actions*) on pages 144 to 147 of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of Lloyds TSB Bank Group.

The LLP is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the LLP is aware) since 12 September 2008, the date of its incorporation, which may have or have had in the recent past a significant effect on the LLP's financial position or profitability.

### **Independent Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Issuer and its subsidiaries for the two financial years ended 31 December 2008 and 31 December 2009.

**Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

**Post-issuance information**

The Issuer intends to provide a monthly Asset Coverage and Investor Report which will be made available to Covered Bondholders at [www.investorrelations.lloydstsb.com](http://www.investorrelations.lloydstsb.com) detailing, among other things, compliance with the Asset Coverage Test. The Issuer takes no responsibility or liability as to the accuracy or completeness of the information set out on its website nor does the contents of its website or any information set out thereon form any part of this Prospectus.

## GLOSSARY

<b>30/360, 360/360 or Bond Basis</b>	The meaning given in Condition 4.6(c)(vi) on page 109
<b>30E/360 or Eurobond Basis</b>	The meaning given in Condition 4.6(c)(vii) on page 109
<b>30E/360 (ISDA)</b>	The meaning given in Condition 4.6(c)(viii) on page 110
<b>1999 Regulations</b>	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended
<b>€, Euro or euro</b>	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March, 1957, as amended by, <i>inter alia</i> , the Single European Act of 1986 and the Treaty of European Union of 7th February, 1992 and the Treaty of Amsterdam of 2nd October, 1997 establishing the European Community
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>\$, U.S.\$ or U.S. Dollars or US Dollars</b>	The lawful currency for the time being of the United States of America
<b>¥, Yen or JPY</b>	The lawful currency for the time being of Japan
<b>ABS</b>	Asset Backed Securities
<b>Account Bank</b>	Lloyds TSB Bank plc acting in its capacity as account bank and any other financial institution which accedes to the Bank Account Agreement as an Account Bank
<b>Account Bank Required Ratings</b>	At least a short-term, unsecured, unsubordinated and unguaranteed debt obligation rating of P-1 by Moody's and F1 by Fitch (or such other ratings that may be agreed between the parties to the Bank Account Agreement or the Guaranteed Investment Contract, as the case may be, provided that a Rating Agency Confirmation has been obtained)
<b>Accrual Yield</b>	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Accrued Interest</b>	In relation to a Loan as at any date, interest accrued but not yet due and payable on such Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date
<b>Acquisition</b>	The acquisition by Lloyds Banking Group plc of HBOS
<b>Actual/360</b>	The meaning given in Condition 4.6(c)(v) on page 109
<b>Actual/365 (Fixed)</b>	The meaning given in Condition 4.6(c)(iii) on page 109
<b>Actual/Actual (ICMA)</b>	The meaning given in Condition 4.6(c)(i) on page 108
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms
<b>Adjusted Aggregate Loan Amount</b>	The meaning given on page 174
<b>Adjusted Current Balance</b>	The meaning given on page 174
<b>Adjusted Required Redemption Amount</b>	The meaning given on page 179
<b>Administration Fee</b>	The meaning given on page 171
<b>Agency Agreement</b>	The agency agreement dated the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agent (as the same may be

	amended, restated, supplemented, replaced or novated from time to time)
<b>Agents</b>	The Paying Agents, the Registrar, the Exchange Agent, the Transfer Agents and any Calculation Agent
<b>Amortisation Test</b>	The meaning given on page 177
<b>Amortisation Test Aggregate Loan Amount</b>	The meaning given on page 177
<b>Amortisation Test Current Balance</b>	The meaning given on page 177
<b>Amortised Face Amount</b>	The meaning given on page 117
<b>Arrears Adjusted Current Balance in Arrears</b>	The meaning given on page 175
	In respect of a Mortgage Account, that one or more Monthly Payments in respect of such Mortgage Account have become due and remain unpaid by a Borrower
<b>Arrears of Interest</b>	In respect of a Loan as at any date, the aggregate of all interest which is due and payable and remains unpaid on that date
<b>Asset Amount</b>	The meaning set out in Condition 6.13 ( <i>Redemption of Equity Linked Redemption Covered Bonds</i> ) of the Terms and Conditions
<b>Asset Coverage and Investor Report</b>	The report substantially in the form set out in Schedule 3 to the Cash Management Agreement, to be prepared by the Cash Manager each month or at such other intervals as Lloyds TSB Bank plc, the LLP, the Cash Manager and the Rating Agencies may agree
<b>Asset Coverage Test</b>	The meaning given on page 174
<b>Asset Coverage Test Breach Notice</b>	The notice required to be served by the Bond Trustee if the Asset Coverage Test is not satisfied on two consecutive Calculation Dates
<b>Asset Monitor</b>	PricewaterhouseCoopers LLP appointed as such under the Asset Monitor Agreement (and any successor asset monitor appointed in accordance with the Asset Monitor Agreement)
<b>Asset Monitor Agreement</b>	The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Asset Monitor Report</b>	A report substantially in the form contained in Schedule 2 of the Asset Monitor Agreement and prepared by the Asset Monitor on the basis of and in accordance with the calculations and procedures set out in Schedule 3 of the Asset Monitor Agreement
<b>Asset Percentage</b>	93.0 per cent. or such lower percentage figure as determined from time to time pursuant to Clause 11.3 of the LLP Deed
<b>Asset Pool</b>	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) ( <i>Asset Pool</i> ) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations
<b>Authorised Investments</b>	Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities having a remaining maturity of 30 days or less and maturing on or before the next following LLP Payment Date; and</li> <li>(b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper)</li> </ul>

provided that in all cases such investments have a remaining period to maturity of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorized person under the FSMA) are rated at least (i) P-1 by Moody's and F1+ by Fitch or (ii) their equivalents by three other internationally recognised rating agencies,

provided that such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations

#### **Available Principal Receipts**

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account;
- (b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member (other than those Cash Capital Contributions credited to the Reserve Ledger on the GIC Account) and (iii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreements, which is otherwise applied by the LLP in accordance with the provisions of the LLP Deed;
- (c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the LLP on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger);
- (d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap; and
- (e) any Excess Proceeds,

#### *Excluding*

- (f) any Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Principal Receipts);
- (g) Tax Credits and any amount received by the LLP in respect of Tax Credits (to the extent otherwise constituting Available Principal Receipts); and
- (h) Swap Provider Tax Payments received from Swap Providers (to the extent otherwise constituting Available Principal Receipts)



**Available Revenue Receipts**

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) the amount of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger on the GIC Account;
- (b) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and any Authorised Investments in the preceding Calculation Period and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest, but excluding amounts received by the LLP under the Interest Rate Swap Agreement and amounts in respect of interest received by the LLP under each Covered Bond Swap Agreement, in each case which is otherwise applied by the LLP in accordance with the LLP Deed;
- (c) amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account;
- (e) following service of a Notice to Pay or an Asset Coverage Test Breach Notice (which remains outstanding), amounts standing to the credit of the Reserve Fund; and
- (f) the amount of any premium received by the LLP from a new Swap Provider as consideration for the entry by the LLP into a new Swap, except to the extent applied to pay any termination payment under the relevant Swap being replaced,

*Excluding*

- (g) Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent otherwise constituting Available Revenue Receipts);
- (h) Tax Credits and any amount received by the LLP in respect of Tax Credits (to the extent otherwise constituting Available Revenue Receipts);
- (i) Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Revenue Receipts); and
- (j) Swap Provider Tax Payments received from the Swap Providers

**Bank Account Agreement**

The bank account agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)

**Banking Act**

Banking Act 2009

**Bearer Covered Bonds**

Covered Bonds in bearer form

**Bearer Definitive Covered Bond**

A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed in

exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue

<b>Bearer Global Covered Bonds</b>	Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds substantially in the forms set out in Part 1 and Part 2, respectively, of Schedule 2 to the Trust Deed
<b>Beneficial Owner</b>	Each actual purchaser of each DTC Covered Bond
<b>Block Buildings Insurance</b>	The block buildings insurance cover provided to Lloyds TSB Bank plc by Aviva Insurance Limited
<b>Bond Trustee</b>	BNY Corporate Trustee Services Limited, in its capacity as bond trustee under the Trust Deed together with any successor or additional bond trustee appointed from time to time thereunder
<b>Borrower</b>	In relation to a Loan, each individual specified as such in the relevant Mortgage Conditions together with each individual (if any) from time to time assuming an obligation to repay such Loan or any part of it
<b>BOS</b>	Bank of Scotland plc
<b>Broken Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>Business Day</b>	The meaning given in Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 107
<b>Business Day Convention</b>	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 107
<b>C&amp;G and Cheltenham &amp; Gloucester</b>	Cheltenham & Gloucester plc (registered number 02299428), a public limited company incorporated under the laws of England and Wales, whose registered office is at Barnett Way, Gloucester GL4 3RL
<b>C&amp;GBS</b>	Cheltenham & Gloucester Building Society
<b>Calculation Agent</b>	In relation to one or more Series of Variable Interest Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds
<b>Calculation Amount</b>	In relation to any Series of Covered Bonds has the meaning given to it in the applicable Final Terms
<b>Calculation Date</b>	The third London Business Day prior to each LLP Payment Date
<b>Calculation Period</b>	The period from, and including the first day of each calendar month to, and including, the last day of each calendar month except that for the first Series of Covered Bonds the first Calculation Period means the

	period from, and including, the First Sale Date to, and including, the last day of October 2008
<b>Capital Account Ledger</b>	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time
<b>Capital Balance</b>	For a Loan at any date the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues which, for the avoidance of doubt, shall not include Capitalised Expenses and Capitalised Interest
<b>Capital Contribution</b>	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed
<b>Capital Contribution in Kind</b>	A contribution by way of Loans and their Related Security to the LLP in an amount equal to (a) the Current Balance of those Loans as at the relevant Sale Date minus (b) any cash payment paid by the LLP to the Seller for the Loans and their Related Security on that Sale Date, plus (c) the principal amount of all Flexible Loan Drawings and Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and, without double-counting, any increases in the Current Balance of the relevant account
<b>Capital Distribution</b>	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration)
<b>Capitalised Expenses</b>	In relation to a Loan, the amount of all expenses, charges, fees, premiums or payments capitalised and added to the Capital Balance in respect of such Loan in accordance with the relevant Mortgage Conditions
<b>Capitalised Interest</b>	The aggregate increase in the Capital Balance of a Loan that occurs as a result of the interest accruing on the Capital Balance
<b>Cash Capital Contribution</b>	A capital contribution to the LLP made in cash whether by way of loan or otherwise and including the amount paid by the Seller to the LLP in respect of unpaid interest and principal in association with the Underpayment any Payment Holidays on the Loans in the Portfolio in accordance with the provisions of the LLP Deed
<b>Cash Management Agreement</b>	The cash management agreement entered into on the Programme Date between the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Cash Manager</b>	C&G, in its capacity as cash manager or any successor cash manager appointed from time to time pursuant to the Cash Management Agreement
<b>CCA</b>	Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	Consumer Credit Act 2006
<b>Certificate of Title</b>	A solicitor's or licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation
<b>Charged Property</b>	The meaning given on page 187
<b>Clearing Systems</b>	DTC, Euroclear and/or Clearstream, Luxembourg
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme or its successors

<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	Mortgage Code (as defined below)
<b>Common Depositary</b>	The common depositary for Euroclear and Clearstream, Luxembourg
<b>Common Safekeeper</b>	Euroclear SA/NV or any entity so determined pursuant to the Agency Agreement
<b>Companies Act</b>	The meaning given to the term "Companies Acts" in Section 2 of the Companies Act 2006, with the addition of the words "to the extent that they are in force" at the end of Section 2(1)(a) (as it applies to limited liability partnerships) and any regulations made pursuant to those Acts to the extent that they are in force
<b>Company</b>	Lloyds Banking Group plc, registered in Scotland (no. 95000)
<b>Consumer Credit Directive</b>	Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC
<b>Corporate Services Agreement</b>	The corporate services agreement dated the Programme Date entered into by the Liquidation Member and Holdings, with, <i>inter alios</i> , the Corporate Services Provider and the LLP (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Corporate Services Provider</b>	Structured Finance Management Limited acting through its office at 35 Great St. Helen's, London EC3A 6AP, in its capacity as corporate services provider together with any successor corporate services provider from time to time
<b>Coupon</b>	<p>An interest coupon appertaining to a Bearer Definitive Covered Bond (other than a Zero Coupon Covered Bond), such coupon being:</p> <ul style="list-style-type: none"> <li>(a) if appertaining to a Fixed Rate Covered Bond, substantially in the form set out in Part 5A of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer; or</li> <li>(b) if appertaining to a Floating Rate Covered Bond or an Index Linked Interest Covered Bond, substantially in the form set out in Part 5B of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer; or</li> <li>(c) if appertaining to a Bearer Definitive Covered Bond which is neither a Fixed Rate Covered Bond nor a Floating Rate Covered Bond nor an Index Linked Interest Covered Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer</li> </ul>
<b>Couponholders</b>	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons)
<b>Covered Bond</b>	Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 10 ( <i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i> ) of the Terms and Conditions

<b>Covered Bond Guarantee</b>	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment (following service of a Notice to Pay or an LLP Acceleration Notice) of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment
<b>Covered Bond Swap</b>	Each transaction between the LLP, the relevant Covered Bond Swap Provider and the Security Trustee pursuant to a Covered Bond Swap Agreement
<b>Covered Bond Swap Agreement</b>	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing any Covered Bond Swaps in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Covered Bond Swap Early Termination Event</b>	The meaning given on page 186
<b>Covered Bond Swap Provider</b>	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement
<b>Covered Bond Swap Rate</b>	In relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the relevant Covered Bond Swap Agreement has terminated, the applicable spot rate
<b>Covered Bondholders</b>	Means the several persons who are for the time being holders of outstanding Covered Bonds (being, in the case of Bearer Covered Bonds, the bearers thereof and, in the case of Registered Covered Bonds, the several persons whose names are entered in the register of holders of the Registered Covered Bonds as the holders thereof) save that, in respect of the Covered Bonds of any Series, for so long as such Covered Bonds or any part thereof are represented by a Bearer Global Covered Bond deposited with a common depositary or, as the case may be, the Common Safekeeper for Euroclear and Clearstream, Luxembourg, or so long as DTC, Euroclear or Clearstream, Luxembourg or its nominee is the registered holder of a Registered Global Covered Bond, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) or, as the case may be, DTC or its nominee, as the holder of a particular principal amount of the Covered Bond of such Series shall be deemed to be the holder of such principal amount of such Covered Bonds (and the holder of the relevant Global Covered Bond shall be deemed not to be the holder) for all purposes under the Trust Deed other than with respect to payment of principal or interest on such principal amount of such Covered Bonds and, in the case of DTC or its nominee, voting, giving consents and making requests pursuant to the Trust Deed, the rights to which shall be vested, as against the Issuer, the LLP and the Bond Trustee, solely in such common depositary or the Common Safekeeper or, as the case may be, DTC or its nominee and for which purpose such common depositary or the Common Safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such principal amount of such Covered Bonds in accordance with and subject to its terms and the provisions of the trust presents and the expressions <b>Covered Bondholder</b> , <b>Holder</b> and <b>holder of Covered Bonds</b> and related expressions shall be construed accordingly
<b>CRD</b>	Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)

<b>Credit Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to the creditworthiness of, performance of obligations by or some other factor relating to one or more Reference Entities, as set out in the applicable Final Terms
<b>Currency Linked Covered Bonds</b>	Covered Bonds identified as such in the applicable Final Terms
<b>Current Balance</b>	<p>In relation to any Loan at any date (the <b>current balance determination date</b>), the aggregate at such date (but avoiding double counting) of:</p> <ul style="list-style-type: none"> <li>(a) the Initial Advance;</li> <li>(b) Further Advances and/or Flexible Loan Drawings;</li> <li>(c) Capitalised Expenses;</li> <li>(d) Capitalised Interest; and</li> <li>(e) all expenses, charges, fees, premium or payment due and owing by the Borrower which have not yet been capitalised</li> </ul> <p>in each case relating to such Loan less all prepayments, repayments or payments of any of the foregoing made on or prior to the current balance determination date</p>
<b>Custodian</b>	Any custodian with whom the relevant Registered Global Covered Bonds have been deposited
<b>Customer Files</b>	<p>The file or files relating to each Loan and its Related Security containing, <i>inter alia</i>:</p> <ul style="list-style-type: none"> <li>(a) all material correspondence relating to that Loan; and</li> <li>(b) the completed mortgage documentation applicable to the Loan (other than the Title Deeds) including the Valuation Report and the solicitor's or licensed or qualified conveyancer's Certificate of Title,</li> </ul> <p>whether original documentation, in electronic form or otherwise</p>
<b>Day Count Fraction</b>	The meaning given in Condition 4.6(c) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 108
<b>Dealer</b>	Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc (referred to throughout this Prospectus as the <b>Dealer</b> )
<b>Deed of Charge</b>	The deed of charge dated the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Defaulted Loan</b>	Any Loan in the Portfolio where the amount in Arrears is equal to or greater than three times the current Monthly Payment
<b>Deferred Consideration</b>	The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priority of Payments
<b>Definitive Covered Bond</b>	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
<b>Definitive Regulation S Covered Bond</b>	A Registered Covered Bond in definitive form sold to non-U.S. persons outside the United States in reliance on Regulation S
<b>Definitive Rule 144A Covered Bond</b>	A Registered Covered Bond in definitive form sold in the United States to QIBs in reliance on Rule 144A

<b>Designated Account</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Terms and Conditions
<b>Designated Bank</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Terms and Conditions
<b>Designated Maturity</b>	The meaning given in the ISDA Definitions
<b>Designated Member</b>	Each Member appointed and registered as such from time to time having those duties and obligations set out in Sections 8 and 9 of the LLPA being, as at the Programme Date, Lloyds TSB Bank plc and the Liquidation Member
<b>Determination Date</b>	The meaning given in the applicable Final Terms
<b>Determination Period</b>	The meaning given in Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Direct Participants</b>	Direct participants in DTC
<b>Directors</b>	The directors for the time being of the Issuer
<b>Disclosure and Transparency Rules</b>	The Disclosure and Transparency Rules made by the FSA under Part VI of the FSMA
<b>Discretionary Rate</b>	Standard Variable Rates and/or any other discretionary rates applicable to any Discretionary Rate Loans
<b>Distribution Compliance Period</b>	The period that ends 40 days after the later of the commencement of the offering and the Issue Date
<b>DPA</b>	Data Protection Act 1998, as amended
<b>DTC</b>	The Depository Trust Company or its successors
<b>DTC Covered Bonds</b>	Registered Covered Bonds accepted into DTC's book-entry settlement system
<b>DTCC</b>	The Depository Trust & Clearing Corporation
<b>Dual Currency Linked Covered Bond</b>	A Covered Bond in respect of which payments of interest will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, such currencies and rates of exchange to be specified in the applicable Final Terms
<b>Due for Payment</b>	<p>The requirement by the LLP to pay any Guaranteed Amount:</p> <p>(a) following service of a Notice to Pay but prior to service of an LLP Acceleration Notice:</p> <p>(i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date or such other Interest Payment Date(s) specified in the applicable Final Terms (the <b>Original Due for Payment Date</b>); and</p> <p>(ii) in relation to any Guaranteed Amount in respect of the Final Redemption Amount payable on the Final Maturity Date of a Series of Covered Bonds for which an Extended Due for Payment Date is specified in the applicable Final Terms, on the</p>

Extended Due for Payment Date, but only to the extent that the LLP, having received the Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date, does not pay Guaranteed Amounts corresponding to the full amount of the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, because the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of the Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in the Final Terms (if any)) and (2) the Extension Determination Date or if, in either case, such day is not a Business Day, the next following Business Day.

For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

- (b) following service of an LLP Acceleration Notice, on the date on which the LLP Acceleration Notice is served on the Issuer and the LLP,

and the date on which any payment is Due for Payment shall be the **Due for Payment Date**

**Earliest Maturing Covered Bonds**

At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to service of an LLP Acceleration Notice)

**Early Redemption Amount**

The amount calculated in accordance with Condition 6.7 (*Early Redemption Amounts*)

**Early Repayment Charges**

The charge which a Borrower is required to pay under the terms of the relevant Loan if he or she repays all or part of the Loan before a specified date

**Effective**

in the context of the Acquisition:

- (a) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or
- (b) if the Acquisition is implemented by way of a takeover offer under section 974 of the Companies Act 2006 (as amended) in so far as in force, the takeover offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code on Takeovers and Mergers

**Eligibility Criteria**

The meaning given on page 162

**English Loan**

A Loan secured by a Mortgage over a Property located in England or Wales

**Equity Linked Interest Covered Bonds**

Covered Bonds in respect of which payments of interest will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms



<b>Equity Linked Redemption Covered Bonds</b>	Covered Bonds identified as such in the applicable Final Terms
<b>EU</b>	The European Union
<b>EU Capital Requirements Directive</b>	Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)
<b>EURIBOR</b>	Euro-zone inter-bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V. or its successors
<b>Excess Proceeds</b>	In accordance with the Terms and Conditions, moneys received (following service of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar officer appointed in relation to the Issuer
<b>Exchange Act</b>	The U.S. Securities Exchange Act of 1934, as amended
<b>Exchange Agent</b>	The Bank of New York Mellon in its capacity as exchange agent (which expression shall include any successor exchange agent)
<b>Exchange Date</b>	On or after the date which is 40 days after a Temporary Global Covered Bond is issued
<b>Exchange Event</b>	In the case of Bearer Covered Bonds, the meaning given on page 79 and in the case of Registered Covered Bonds, the meaning given on page 81
<b>Excluded Scheduled Interest Amounts</b>	The meaning given in the definition of Scheduled Interest
<b>Excluded Scheduled Principal Amounts</b>	The meaning given in the definition of Scheduled Principal
<b>Excluded Swap Termination Amount</b>	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider
<b>Extended Covered Bond</b>	The meaning given on page 200
<b>Extended Due for Payment Date</b>	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date
<b>Extension Determination Date</b>	In relation to any Series of Covered Bonds, the date falling two Business Days after the expiry of 14 days from (and including) the Final Maturity Date of such Series of Covered Bonds
<b>Extraordinary Resolution</b>	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
<b>Final Maturity Date</b>	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Terms and Conditions
<b>Final Redemption Amount</b>	The meaning given in the applicable Final Terms
<b>Final Terms</b>	The final terms substantially in the form of Schedule 3 to the Agency Agreement which, with respect to each Tranche of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the

	London Stock Exchange on or before the date of issue of the applicable Tranche or Series of Covered Bonds
<b>Financial Instruments and Exchange Law of Japan</b>	The Financial Instruments and Exchange Law of Japan Law No. 25 of 1948, as amended
<b>Financial Services Act</b>	Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended
<b>First Sale Date</b>	The date on which the Initial Portfolio is assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement
<b>Fitch</b>	Fitch Ratings Ltd. or its successors
<b>Fixed Coupon Amount</b>	The meaning given in the applicable Final Terms
<b>Fixed Rate Covered Bonds</b>	Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) as indicated in the applicable Final Terms;
<b>Fixed Rate Loans</b>	Loans where the interest rate payable by the Borrower does not vary and is fixed for a certain period of time by the Seller
<b>Flexible Draw Capacity</b>	The meaning given on page 177
<b>Flexible Loan</b>	A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Mortgage Account and/or overpay or underpay interest and principal in a given month and/or take a Payment Holiday
<b>Flexible Loan Drawing</b>	Any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance
<b>Floating Rate</b>	The meaning given in the ISDA Definitions
<b>Floating Rate Convention</b>	The meaning given in Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Floating Rate Covered Bonds</b>	<p>Covered Bonds which bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> <p>as set out in the applicable Final Terms</p>
<b>Floating Rate Option</b>	The meaning given in the ISDA Definitions
<b>Following Business Day Convention</b>	The meaning given in Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Forward Starting Covered Bond Swap</b>	Each covered bond swap transaction described in a Forward Starting Covered Bond Swap Agreement
<b>Forward Starting Covered Bond Swap Agreement</b>	Each agreement between the LLP, the relevant Covered Bond Swap Provider and the Security Trustee in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received

by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay or an LLP Acceleration Notice) in the form of an ISDA Master Agreement, including a Schedule, one confirmation in relation to one transaction and a credit support annex

<b>FOS</b>	Financial Ombudsman Service under the FSMA
<b>Framework</b>	A comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title <i>"International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Comprehensive Version)"</i>
<b>FSA or Financial Services Authority</b>	The Financial Services Authority of the United Kingdom
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>Further Advance</b>	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage and does not include a Flexible Loan Drawing
<b>GAP</b>	Asset Protection Scheme
<b>GIC Account</b>	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement, the Deed of Charge and the LLP Deed or such additional or replacement account as may for the time being be in place pursuant to the Cash Management Agreement with the prior consent of the Security Trustee and designated as such
<b>GIC Provider</b>	Lloyds TSB Bank plc, in its capacity as GIC provider or any successor GIC provider appointed from time to time
<b>Global Covered Bond</b>	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require
<b>Group</b>	See "Lloyds Banking Group"
<b>Group Reorganisation</b>	The transfer by Lloyds Banking Group plc of its holding in HBOS plc to Lloyds TSB Bank plc on 1 January 2010. For more information on the effect of this, please see Risk Factor 1.26 on page 46.
<b>Guaranteed Amounts</b>	Prior to service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7 ( <i>Taxation</i> ) of the Terms and Conditions), including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed
<b>Guaranteed Amounts Due Date</b>	The later of (a) the date which is two Business Days following service of a Notice to Pay on the LLP, and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment
<b>Guaranteed Investment Contract or GIC</b>	The guaranteed investment contract dated the Programme Date between the LLP, the Cash Manager, the GIC Provider and the Security Trustee

	(as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Guarantee Priority of Payments</b>	The meaning given on page 198
<b>Halifax Index</b>	The index of increases in house prices issued by Halifax, a division of Bank of Scotland plc, in relation to residential properties in the United Kingdom
<b>Halifax Price Indexed Valuation</b>	In relation to any Property at any date, the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation
<b>Hard Bullet Covered Bonds</b>	The Covered Bonds of a Tranche or Series which are not subject to an Extended Due for Payment Date as specified in the Final Terms
<b>HBOS</b>	HBOS plc, registered in Scotland with registered number SC218813
<b>HBOS Group</b>	HBOS and its subsidiary undertakings from time to time
<b>HM Treasury</b>	The Commissioners of Her Majesty's Treasury (or, where HM Treasury has nominated a nominee to acquire any shares which HM Treasury would otherwise be obliged to acquire, such nominee)
<b>Holding Company</b>	Any body corporate which is for the time being a holding company within the meaning given to it in Section 1159 of the Companies Act
<b>Holdings</b>	Lloyds TSB Covered Bonds (Holdings) Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company (registered no. 06696506)
<b>Index Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of such securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree
<b>Index Linked Redemption Covered Bonds</b>	Covered Bonds identified as such in the applicable Final Terms
<b>Indexed Valuation</b>	<p>In relation to any Loan secured over any Property at any date:</p> <p>(a) where the Latest Valuation of that Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or</p> <p>(b) where the Latest Valuation of that Property is less than the Halifax Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the Latest Valuation and the Halifax Price Indexed Valuation</p>
<b>Indirect Participants</b>	Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly
<b>Initial Advance</b>	<p>In relation to a Loan, the original principal amount advanced by the Seller including any retention(s) advanced to the relevant Borrower in accordance with the Mortgage Conditions after completion of the Mortgage but excluding any:</p> <p>(a) Further Advance; and</p> <p>(b) Flexible Loan Drawing,</p> <p>in each case relating to any such Loan</p>
<b>Initial Portfolio</b>	The meaning given on page 204
<b>Insolvency Act</b>	Insolvency Act 1986, as amended
<b>Insolvency Event</b>	<p>In respect of the Seller, the Servicer or Cash Manager:</p> <p>(a) an order is made or an effective resolution passed for the</p>

winding up of the relevant entity; or

- (b) the relevant entity ceases or threatens to cease to carry on the whole of its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or
- (c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or the substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness

<b>Instalment Amounts</b>	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms
<b>Instalment Covered Bonds</b>	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms
<b>Instalment Dates</b>	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms
<b>Insurance Acknowledgement</b>	In the case of the Insurance Policies, a duly executed letter from the relevant insurer substantially in the form set out in <b>Schedule 8</b> to the Mortgage Sale Agreement
<b>Insurance Policies</b>	means the Properties in Possession Cover and Block Buildings Insurance and <b>Insurance Policy</b> shall be construed accordingly
<b>Intercompany Loan</b>	means all Term Advances made by the Issuer to the LLP under the Intercompany Loan Agreement
<b>Intercompany Loan Agreement</b>	The term loan agreement dated the Programme Date between the Issuer, the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Interest Accrual Period</b>	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.

<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 4.2(d) ( <i>Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds</i> ) of the Terms and Conditions
<b>Interest Commencement Date</b>	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest
<b>Interest Determination Date</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds the meaning given in the applicable Final Terms
<b>Interest Payment Date</b>	In respect of Fixed Rate Covered Bonds, the meaning given to it in the applicable Final Terms and in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, the meaning given in Condition 4.2(a) ( <i>Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds</i> ) of the Terms and Conditions
<b>Interest Period</b>	In accordance with Condition 4.6 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions, the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date
<b>Interest Rate Shortfall</b>	The meaning given on page 170
<b>Interest Rate Shortfall Test</b>	The meaning given on page 170
<b>Interest Rate Swap</b>	The interest rate swap entered into in connection with all Series of Covered Bonds under the terms of the Interest Rate Swap Agreement
<b>Interest Rate Swap Agreement</b>	The agreement between the LLP, the Interest Rate Swap Provider and the Security Trustee dated the Programme Date governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Interest Rate Swap Early Termination Event</b>	The meaning given on page 183
<b>Interest Rate Swap Provider</b>	Lloyds TSB Bank plc acting through its office c/o Cheltenham & Gloucester plc, Barnett Way, Gloucester GL4 3RL in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider
<b>Investor Put</b>	The meaning given in Condition 6.4 ( <i>Redemption at the option of the Covered Bondholders (Investor Put)</i> ) of the Terms and Conditions
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISDA Definitions</b>	The 2006 ISDA Definitions, as published by ISDA
<b>ISDA Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2 ( <i>Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds</i> )
<b>ISDA Master Agreement</b>	The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA
<b>ISDA Rate</b>	The meaning given in Condition 4.2(b)(i) ( <i>Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds</i> ) of the Terms and Conditions
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche or Series of Covered Bonds under the Programme, as specified in the applicable Final Terms

<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued
<b>Issuer</b>	Lloyds TSB Bank plc
<b>Issuer Acceleration Notice</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Terms and Conditions
<b>Issuer Call</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Terms and Conditions
<b>Issuer Event of Default</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Terms and Conditions
<b>Issuer Subordinated Loan</b>	The meaning given on page 173
<b>Italian Banking Act</b>	Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended
<b>Late Payment</b>	The meaning given in Condition 6.11 ( <i>Taxes</i> ) of the Terms and Conditions
<b>Latest Valuation</b>	In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller (or C&G in its capacity as originator of loans prior to 1 October 2007)
<b>Ledger</b>	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Pre-Maturity Liquidity Ledger, the Intercompany Loan Ledger and the Capital Account Ledger
<b>Legended Covered Bonds</b>	The Registered Covered Bonds in definitive form that are issued to Institutional Accredited Investors and Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bonds) sold in private transactions to QIBs in accordance with the requirements of Rule 144A
<b>Lending Criteria</b>	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender
<b>LIBOR</b>	London inter-bank offered rate
<b>Liquidation Member</b>	Lloyds TSB Covered Bonds (LM) Limited, a special purpose vehicle incorporated under the laws of England and Wales as a private limited company (registered no. 06696578)
<b>Listing Rules</b>	The Listing Rules made by the FSA under Part VI of the FSMA
<b>Lloyds Banking Group</b>	The Company and its subsidiary undertakings from time to time
<b>Lloyds TSB</b>	The Company
<b>Lloyds TSB Bank Group</b>	The Issuer and its subsidiary undertakings from time to time
<b>Lloyds TSB Group</b>	The Issuer and its subsidiary undertakings from time to time but excluding the HBOS Group
<b>Lloyds TSB Scotland</b>	Lloyds TSB Scotland plc
<b>Lloyds TSB Standard Variable Rate</b>	The standard variable rate set by the Seller in relation to applicable Variable Rate Loans (other than Tracker Loans) beneficially owned by the Seller on the Seller's residential mortgage book
<b>LLP</b>	Lloyds TSB Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC340094)
<b>LLPA or LLP Act</b>	Limited Liability Partnerships Act 2000 as amended from time to time and any regulations made pursuant to that Act
<b>LLP Acceleration Notice</b>	A notice in writing given by the Bond Trustee to the Issuer and the

LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall, as against the Issuer (if not already due and repayable against it following an Issuer Acceleration Notice) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount and all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series, in each case as provided in and in accordance with the Trust Deed, and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing

<b>LLP Accounts</b>	The GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including each Swap Collateral Account
<b>LLP Deed</b>	The limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>LLP Event of Default</b>	The meaning given in Condition 9.2 ( <i>LLP Events of Default</i> ) of the Terms and Conditions
<b>LLP Management Board</b>	The management board which will act on behalf of the LLP and to which (other than certain decisions identified in the LLP Deed as requiring a unanimous decision of the Members, including (without limitation) any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP) the Members delegate all matters relating to the business of the LLP and its management
<b>LLP Payment Date</b>	The 8th day of each month or if not a London Business Day the next following London Business Day
<b>LLP Payment Period</b>	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date
<b>LLP Standard Variable Rate</b>	The standard variable rate applicable to Variable Rate Loans in the Portfolio as set, other than in limited circumstances, by the Servicer pursuant to the Servicing Agreement
<b>Loan</b>	Each mortgage loan (including, for the avoidance of doubt, any English Loan or any Scottish Loan) which is to be sold, assigned or transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (or, in the case of Scottish Loans, held pursuant to a Scottish Declaration of Trust) and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including, without limitation, all Flexible Loan Drawings, Product Switches and Further Advances which are, or are to be, sold, assigned and transferred by the Seller to the LLP under the terms of the Mortgage Sale Agreement) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it
<b>Loan Repurchase Notice</b>	A notice in substantially the form set out in the Mortgage Sale Agreement served by the LLP on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement



<b>Loan-to-Value Ratio</b>	The ratio of the outstanding balance of a Loan to the value of the Property securing that Loan
<b>London Business Day</b>	A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London
<b>London Stock Exchange</b>	London Stock Exchange plc or any body to which its functions have been transferred
<b>Long Maturity Covered Bond</b>	A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond
<b>Margin</b>	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Master Definitions and Construction Agreement</b>	The master definitions and construction agreement made between the parties to the Transaction Documents on the Programme Date (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Maximum Rate of Interest</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms
<b>MCCB</b>	Mortgage Code Compliance Board
<b>MCOB</b>	Mortgages and Home Finance: Conduct of Business Sourcebook, published by the FSA on 31 October 2004, as amended, revised or supplemented from time to time
<b>Member</b>	Each member of the LLP
<b>MH/CP Documentation</b>	An affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 and/or (where applicable) the Civil Partnership Act 2004 in connection with a Mortgage over a Property in Scotland or the Property secured thereby
<b>Minimum Rate of Interest</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Minimum Redemption Amount</b>	The amount (if any) specified as such in the applicable Final Terms
<b>Modified Following Business Day Convention</b>	The meaning given in Condition 4.6(b)(iii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Monthly Payment</b>	The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan
<b>Monthly Payment Day</b>	The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day unless it would thereby fall into the next calendar month, in which event such Monthly Payment Date shall be brought forward to the immediately preceding London Business Day
<b>Moody's</b>	Moody's Investors Service Limited or its successors

<b>Mortgage</b>	The legal charge, mortgage, standard security or charge securing a Loan
<b>Mortgage Account</b>	All Loans secured on the same Property and thereby forming a single mortgage account
<b>Mortgage Code</b>	The mortgage code sponsored by the CML and policed by the MCCB under which, until 31 October 2004, residential mortgage business in the United Kingdom was voluntarily self-regulated
<b>Mortgage Conditions</b>	The terms and conditions applicable to the Loans as contained in the Seller's Mortgage Conditions and/or General Loan Conditions booklets for England and Wales or Scotland applicable from time to time (or the equivalent documentation published by a New Seller)
<b>Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the LLP and the Security Trustee
<b>N(M)</b>	The date on which the FSMA regime relating to the regulation of mortgages came into effect, 31 October 2004
<b>Negative Carry Factor</b>	The meaning given on page 176
<b>New Company</b>	The meaning set out in Condition 19.1 ( <i>Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer</i> ) of the Terms and Conditions
<b>New Entity</b>	The meaning set out in Condition 19.3 ( <i>Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer</i> ) of the Terms and Conditions
<b>New Global Covered Bond or (NGCB)</b>	A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specifies that the Covered Bonds are in NGCB form
<b>New Loan</b>	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to (or, in the case of Scottish Loans, hold pursuant to a Scottish Declaration of Trust for) the LLP after the First Sale Date pursuant to the Mortgage Sale Agreement
<b>New Loan Type</b>	A new type of mortgage loan originated by the Seller or a New Seller, which the Seller or the New Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller or the New Seller, acting reasonably) from any of the Loans or New Seller Loans in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from any of the Loans or New Seller Loans in the Portfolio solely due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, loans where the cash obligations on the part of the Seller remain outstanding and/or rate guarantees
<b>New Member</b>	Any new member admitted to the LLP after the Programme Date
<b>New Mortgage Sale Agreement</b>	Any new mortgage sale agreement entered into between any New Seller, the LLP and the Security Trustee which shall be substantially in the same form and contain substantially the same provisions (provided that the Security Trustee may agree variations to the representations

	and warranties in relation to the relevant New Seller Loans and their Related Security) as the Mortgage Sale Agreement
<b>New Portfolio</b>	The meaning given on page 204
<b>New Portfolio Notice</b>	A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement
<b>New Seller</b>	Any member of the Lloyds Banking Group (other than Lloyds TSB Bank plc) that is a "Connected Person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the LLP in the future pursuant to a New Mortgage Sale Agreement
<b>New Seller Loans</b>	Loans originated by a New Seller
<b>Non-exempt Offer</b>	The meaning given on page 223
<b>Non-Forward Starting Covered Bond Swap</b>	Each covered bond swap transaction described in a Non-Forward Starting Covered Bond Swap Agreement
<b>Non-Forward Starting Covered Bond Swap Agreement</b>	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to service of a Notice to Pay or service of an LLP Acceleration Notice) and under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay or service of an LLP Acceleration Notice) in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Notice to Pay</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) on of the Terms and Conditions
<b>Offer Conditions</b>	The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower
<b>Official List</b>	Official List of the UK Listing Authority
<b>OFT or Office of Fair Trading</b>	The UK Office of Fair Trading
<b>Ombudsman</b>	Financial Ombudsman Service under the FSMA and the CCA 2006
<b>Omnibus Proxy</b>	The omnibus proxy mailed by DTC to the Issuer as soon as possible after the record date in accordance with DTC's usual procedures
<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms
<b>Order</b>	The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544), as amended
<b>Original Due for Payment Date</b>	The meaning given in paragraph (a) of the definition of Due for Payment
<b>outstanding</b>	<p>In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:</p> <ul style="list-style-type: none"> <li>(a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Deed;</li> <li>(b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Terms and Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal</li> </ul>

Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 13 (Notices)) and remain available for payment against presentation (unless the relevant Covered Bonds are in NGCB form) of the relevant Covered Bonds and/or Receipts and/or Coupons;

- (c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 6.9 (Purchases) and 6.10 (Cancellation);
- (d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (Prescription);
- (e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);
- (g) any Bearer Global Covered Bond to the extent that it shall have been exchanged for Bearer Definitive Covered Bonds or another Bearer Global Covered Bond pursuant to its provisions, the provisions of the Trust Deed and the Agency Agreement; and
- (h) those Legended Covered Bonds which have been exchanged for Unlegended Covered Bonds and those Unlegended Covered Bonds which have been exchanged for Legended Covered Bonds, in each case pursuant to their provisions, the provisions of the trust presents and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series;
- (ii) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of Clauses 10.3 and 10.4 of the Trust Deed (Proceedings, Action and Indemnification), Conditions 9 (Events of Default, Acceleration and Enforcement) and 14 (Meetings of Covered Bondholders, Modifications and Waiver) and paragraphs 2, 5, 6 and 8 of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Trust Deed;
- (iii) any discretion, power or authority (whether contained in the trust presents or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially

prejudicial to the interests of the holders of the Covered Bonds of any Series,

those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of any of the Issuer's Subsidiaries (including the LLP), the Issuer's holding company or any subsidiaries of such holding company as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding provided further however that, where all of the Covered Bonds are held by or on behalf of the Issuer, such Covered Bonds shall be deemed to remain outstanding

<b>Panel or Takeover Panel</b>	The Panel on Takeovers and Mergers
<b>Parent Support Deed</b>	The parent support deed entered into on the Programme Date between the Cash Manager, the Servicer, Lloyds TSB Bank plc and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Partial Portfolio</b>	Part of any portfolio of Selected Loans
<b>Partly-Paid Covered Bonds</b>	Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 6.14 ( <i>Partly Paid Covered Bonds</i> ) of the Terms and Conditions on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Final Terms
<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement
<b>Payment Day</b>	The meaning given in Condition 5.6 ( <i>Payment Day</i> ) of the Terms and Conditions
<b>Payment Holiday</b>	A period during which a Borrower under a Loan refrains from making payments of interest and/or principal on his/her Loan either as expressly permitted by the Mortgage Conditions or as permitted by the Seller and/or Servicer
<b>Permanent Global Covered Bond</b>	The meaning given on page 79
<b>Portfolio</b>	The Initial Portfolio and each New Portfolio acquired by the LLP (other than any Loans which have been redeemed in full or repurchased by the Seller or a New Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the LLP)
<b>Post-Enforcement Priority of Payments</b>	The meaning given on page 202
<b>Postponed Deferred Consideration</b>	Deferred Consideration the payment of which is, by reason of the application thereto of the proviso as to Available Revenue Receipts and/or the making of provisions as referred to in the Mortgage Sale Agreement, postponed from the date on which such Deferred Consideration would, but for such application, have been paid
<b>Potential Issuer Event of Default</b>	The meaning given in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Terms and Conditions
<b>Potential LLP Event of Default</b>	The meaning given in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Terms and Conditions
<b>Pre-Acceleration Principal Priority of Payments</b>	The meaning given on page 197
<b>Pre-Acceleration Priority of Payments</b>	The Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments, as applicable
<b>Pre-Acceleration Revenue Priority</b>	The meaning given on page 193

## **of Payments**

<b>Preceding Business Day Convention</b>	The meaning given in Condition 4.6(b)(iv) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions
<b>Pre-Maturity Liquidity Ledger</b>	The ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Liquidity Test has been breached
<b>Pre-Maturity Liquidity Test</b>	The meaning given in <i>Credit Structure – Pre-Maturity Liquidity Test</i> on pages 189-190
<b>Pre-Maturity Liquidity Test Breach Notice Period</b>	in respect of each of the Fitch Pre-Maturity Liquidity Test rating trigger and Moody's Pre-Maturity Liquidity Test rating trigger, eleven months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds
<b>Pre-Maturity Liquidity Test Date</b>	Each London Business Day prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, where the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Liquidity Test has been breached
<b>Principal Amount Outstanding</b>	In accordance with Condition 4.6(f) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day
<b>Principal Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed
<b>Principal Paying Agent</b>	The Bank of New York Mellon, or, if applicable, any successor principal paying agent
<b>Principal Receipts</b>	Any amount received and recorded as being received in respect of principal in respect of any Loan (including payments pursuant to any Insurance Policies and Early Repayment Charges), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of the enforcement procedures), including, for the avoidance of doubt, payments in respect of amounts which previously resulted in an increased Capital Contribution in Kind
<b>Priorities of Payments</b>	The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts set out in the Pre-Acceleration Revenue Priority of Payments, Pre-Acceleration Principal Priority of Payments, Guarantee Priority of Payments and the Post-Enforcement Priority of Payments
<b>Product Switch</b>	<p>A variation to the financial terms and conditions applicable to a Loan other than:</p> <ul style="list-style-type: none"><li>(a) any variation agreed with a Borrower to control or manage arrears on the Loan;</li><li>(b) any variation in the maturity of the Loan;</li><li>(c) any variation imposed by statute;</li></ul>

	<p>(d) any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or</p> <p>(e) any variation in the frequency with which the interest payable in respect of the Loan is charged</p>
<b>Programme</b>	€15 billion global covered bond programme established by the Issuer on the Programme Date
<b>Programme Agreement</b>	The programme agreement entered into on the Programme Date between the Issuer, the LLP and the Dealer named therein concerning the purchase of Covered Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto
<b>Programme Date</b>	20 October 2008
<b>Programme Resolution</b>	The meaning given to it in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Terms and Conditions
<b>Properties in Possession Cover</b>	The properties in possession cover written by Lloyds TSB General Insurance Limited for Loans in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement properties in possession policy or policies as may in the future be issued in favour of the Seller
<b>Property</b>	(In England and Wales) freehold or leasehold property or (in Scotland) a heritable property or a property held under a long lease which is subject to a Mortgage and <b>Properties</b> means all of them
<b>Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and amending 2001/34
<b>Prospectus Rules</b>	The prospectus rules made by the FSA under Part VI of the FSMA
<b>Purchaser</b>	Any third party or the Seller or a New Seller to whom the LLP offers to sell Selected Loans
<b>Put Notice</b>	The meaning given in Condition 6.4 ( <i>Redemption at the option of the Covered Bondholders (Investor Put)</i> ) on page 116
<b>QIB</b>	A "qualified institutional buyer" within the meaning of Rule 144A
<b>Rate of Interest</b>	The meaning given to it in the applicable Final Terms as further elaborated by Condition 4 ( <i>Interest and other Calculations</i> ) of the Terms and Conditions
<b>Rating Agencies</b>	Moody's and Fitch (each a <b>Rating Agency</b> )
<b>Rating Agency Confirmation</b>	A confirmation in writing by the Rating Agencies that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter
<b>RCB Regulations</b>	Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended
<b>RCB Sourcebook</b>	Regulated Covered Bonds Sourcebook, published by the FSA on 6 March 2008, as amended, revised or supplemented from time to time
<b>Reasonable, Prudent Mortgage Lender</b>	A reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital
<b>Receipt</b>	A receipt for payment of instalments of principal (other than the final instalment) attached on issue to a Bearer Definitive Covered Bonds

	repayable in instalments, such receipt being substantially in the form set out in Part 4 of Schedule 2 to the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and includes any replacements for Receipts issued pursuant to Condition 10 ( <i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i> ) of the Terms and Conditions
<b>Receiptholders</b>	The holders of the Receipts
<b>Receiver</b>	Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Deed of Charge
<b>Record Date</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Terms and Conditions
<b>Redeemed Covered Bonds</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Terms and Conditions
<b>Reference Assets</b>	In respect of Equity Linked Interest Covered Bonds, shares or other securities, as indicated in the applicable Final Terms
<b>Reference Entities</b>	In respect of Credit Linked Interest Covered Bonds, entities as indicated in the applicable Final Terms
<b>Reference Price</b>	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Reference Rate</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms
<b>Register</b>	The register of holders of the Registered Covered Bonds maintained by the Registrar
<b>Registered Covered Bond</b>	A Covered Bond in registered form
<b>Registered Definitive Covered Bond</b>	A Registered Covered Bond in definitive form issued or, as the context may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being substantially in the form set out in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and having the Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Terms and Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon
<b>Registered Global Covered Bonds</b>	Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds substantially in the form set out in the Trust Deed
<b>Registered Land</b>	In the case of England and Wales, land the title to which is, or is required to be, registered at the Land Registry
<b>Registers of Scotland</b>	The Land Register of Scotland and the General Register of Sasines
<b>Registrar</b>	The Bank of New York Mellon Luxembourg S.A., in its capacity as registrar (and any successor registrar appointed in accordance with the



	Agency Agreement)
<b>Regulated Covered Bonds</b>	Covered Bonds that have been admitted to the register of regulated covered bonds maintained by the FSA pursuant to the RCB Regulations
<b>Regulated Mortgage Contract</b>	<p>The meaning given under the FSMA being that a contract is a regulated mortgage contract if, at the time it is entered into on or after N(M):</p> <ul style="list-style-type: none"> <li>(a) the contract is one under which the lender provides credit to an individual or to trustees;</li> <li>(b) the contract provides that the obligation of the individual/trustees to repay is to be secured by (in England and Wales) a first ranking legal mortgage or (in Scotland) a first ranking standard security on land (other than timeshare accommodation) in the United Kingdom; and</li> <li>(c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the individual or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person</li> </ul>
<b>Regulation S</b>	Regulation S under the Securities Act
<b>Regulation S Covered Bond</b>	A Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond as the context may require
<b>Regulation S Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S and substantially in Part 7 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues)
<b>Related Security</b>	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the LLP pursuant to the Mortgage Sale Agreement (but excluding, for avoidance of doubt, the Properties in Possession Cover and Block Buildings Insurance in respect of which the LLP and the Security Trustee have received Insurance Acknowledgements)
<b>Relevant Date</b>	The meaning given in Condition 7 ( <i>Taxation</i> ) of the Terms and Conditions
<b>Relevant Period</b>	The meaning given in Condition 14 ( <i>Meetings of Covered Bondholders, Modification and Waiver</i> ) of the Terms and Conditions
<b>Relevant Screen Page</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
<b>Representations and Warranties</b>	The representations and warranties set out in the Mortgage Sale Agreement
<b>Required Current Balance Amount</b>	The meaning given on page 178
<b>Required Redemption Amount</b>	The meaning given on page 179
<b>Reserve Fund</b>	The reserve fund that the LLP will be required to establish on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount and any Cash Capital Contributions made to the LLP by the Seller which the Seller directs the LLP to credit thereto
<b>Reserve Fund Required Amount</b>	If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch or P-1 by Moody's, nil or such other amount as Lloyds TSB Bank plc shall direct the LLP from time to time and otherwise, an amount equal to the Sterling

Equivalent of the interest due on each Series of Covered Bonds for X months together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) and (b) of the Pre-Acceleration Revenue Priority of Payments plus £600,000 or such higher amount as Lloyds TSB Bank plc shall direct the LLP from time to time

where,

X = the number of months between the dates on which the LLP is required to make payments under the Covered Bond Swap entered into in relation to a Series of Covered Bonds, or if no Covered Bond Swap has been entered into in relation to a Series of Covered Bonds, the number of months between the Interest Payment Dates in relation to such Series of Covered Bonds

**Reserve Ledger**

The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Capital Contributions to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed

**Reset Date**

The meaning given in the ISDA Definitions

**Responsible Persons**

The meaning given on page 4

**Revenue Ledger**

The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed

**Revenue Receipts**

Any payment received in respect of any Loan, including any payment received from the Seller in respect of an Underpayment or a Payment Holiday or in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise, which in any such case is not recorded as a Principal Receipt in respect of such Loan

**Right to Buy Loan**

Each Loan extended to the relevant Borrowers in connection with the purchase (or refinancing of the purchase) by those Borrowers of Properties from local authorities or certain other landlords under the "right-to-buy" schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001)

**Rule 144A**

Rule 144A under the Securities Act

**Rule 144A Covered Bond**

A Covered Bond represented by a Rule 144A Global Covered Bond and/or a Definitive Rule 144A Covered Bond as the context may require

**Rule 144A Global Covered Bond**

A Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A and substantially in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee, and the relevant Dealer or Lead Manager (in the case of syndicated issues)

**Rules**

The rules, regulations and procedures creating and affecting DTC and its operations

**S&P**

Standard & Poor's Rating Services, a division of The McGraw-Hill

	Companies, Inc. or its successors
<b>Sale Date</b>	Each of the First Sale Date and each other date of sale of any New Portfolio to the LLP in accordance with the terms of the Mortgage Sale Agreement
<b>Scheduled Interest</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 ( <i>Interest and other Calculations</i> ) of the Terms and Conditions (but excluding any additional amounts relating to premiums, default interest or interest upon interest ( <b>Excluded Scheduled Interest Amounts</b> ) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds) as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 ( <i>Taxation</i> ) of the Terms and Conditions
<b>Scheduled Payment Date</b>	In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date
<b>Scheduled Principal</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 ( <i>Final redemption</i> ) and Condition 6.7 ( <i>Early Redemption Amounts</i> ) of the Terms and Conditions (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest ( <b>Excluded Scheduled Principal Amounts</b> ) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date
<b>Scheme or Scheme of Arrangement</b>	The scheme of arrangement under sections 895 to 899 of the Companies Act 2006, (as amended) in so far as in force between HBOS and the holders of the Scheme Shares
<b>Scottish Declaration of Trust</b>	Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the transfer of the beneficial interest in such Scottish Loans and their Related Security by the Seller or a New Seller to the LLP is given effect
<b>Scottish Loan</b>	A Loan secured by a Mortgage over a Property in Scotland
<b>Scottish Sub-Security</b>	Each standard security granted by the LLP in favour of the Security

	Trustee pursuant to the Deed of Charge
<b>Scottish Supplemental Charge</b>	Each assignment in security governed by Scots law granted by the LLP in respect of its beneficial interest in a Scottish Declaration of Trust or Scottish Declarations of Trust in favour of the Security Trustee pursuant to the Deed of Charge
<b>Scottish Widows</b>	Scottish Widows plc, registered in Scotland (no. SC199549)
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2(b)(ii) ( <i>Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds</i> )
<b>Secured Creditors</b>	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge
<b>Securities Act</b>	U.S. Securities Act of 1933, as amended
<b>Security</b>	The meaning given on page 187
<b>Security Trustee</b>	BNY Corporate Trustee Services Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time
<b>Selected Loan Offer Notice</b>	A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount
<b>Selected Loan Repurchase Notice</b>	A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice
<b>Selected Loans</b>	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed and the Mortgage Sale Agreement having in aggregate the Required Current Balance Amount
<b>Selection Date</b>	The meaning given in Condition 6.3 ( <i>Redemption at the option of the Issuer (Issuer Call)</i> ) of the Terms and Conditions
<b>Seller</b>	Lloyds TSB Bank plc in its capacity as Seller under the Mortgage Sale Agreement, and <b>Sellers</b> means, together, the Sellers and New Sellers
<b>Seller Power of Attorney</b>	A power of attorney to be provided by the Seller substantially in the form set out in schedule 5 ( <i>Power of Attorney in favour of the LLP and the Security Trustee</i> ) to the Mortgage Sale Agreement
<b>Series</b>	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions <b>Covered Bonds of the relevant Series, holders of the relevant Series</b> and related expressions shall be construed accordingly
<b>Series Reserved Matter</b>	In relation to Covered Bonds of a Series: <ul style="list-style-type: none"> <li>(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or delivery, in the case of Asset Amounts or, where applicable, modification of the method of calculating the date of payment</li> </ul>

	<p>or delivery in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;</p> <p>(b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;</p> <p>(c) alteration of the majority required to pass an Extraordinary Resolution;</p> <p>(d) any amendment to the Covered Bond Guarantee or the Deed of Charge;</p> <p>(e) power to sanction any such scheme or proposal for the exchange or sale of the Covered Bonds or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and</p> <p>(f) alteration of paragraph 5 or proviso to paragraph 6 of Schedule 4 to the Trust Deed</p>
<b>Servicer</b>	C&G in its capacity as servicer under the Servicing Agreement (and any successor servicer)
<b>Servicer Termination Event</b>	The meaning given on page 171
<b>Servicing Agreement</b>	The servicing agreement entered into on the Programme Date between the LLP, the Servicer and the Security Trustee (as same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Share Trustee</b>	SFM Corporate Services Limited (registered number 3920255) in its capacity as share trustee together with any successor share trustee appointed from time to time
<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms
<b>Specified Denomination</b>	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms
<b>Specified Period</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms
<b>SRR</b>	Special Resolution Regime under the Banking Act 2009
<b>Standard Documentation</b>	The standard documentation, annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the Seller

	may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender
<b>Standard Security or standard security</b>	A standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970
<b>Standard Variable Rate</b>	Lloyds TSB Standard Variable Rate and/or LLP Standard Variable Rate, as the context may require
<b>Sterling Equivalent</b>	In relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or the Term Advance applicable to such Series of Covered Bonds and (b) Sterling, the applicable amount in Sterling
<b>Sterling LIBOR</b>	LIBOR for sterling deposits having the relevant maturity
<b>Subsidiary</b>	Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act)
<b>Substitution Assets</b>	Each of: <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities;</li> <li>(b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term, unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1/Aa3 by Moody's and F1+/AA- by Fitch or their equivalents by three other internationally recognised rating agencies;</li> <li>(c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and AAA by Fitch or their equivalents by three other internationally recognised rating agencies; and</li> <li>(d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's and AAA by Fitch or their equivalents by three other internationally recognised rating agencies,</li> </ul> <p>provided that such Substitution Assets comply with the requirements of Regulation 2(1)(a) of the RCB Regulations and provided that the following conditions are met: (x) the substitution asset in question can be transferred to and by the LLP without the relevant transfer or agreement to transfer giving rise to a liability to any stamp duty, stamp duty reserve tax or other similar documentary or registration tax for which the LLP is, or may become liable, to account and (y) payments can be made to the LLP under or in respect of the substitution asset in question without any liability on the part of the payer (or any person by or through whom such payment is made) to withhold or otherwise to</p>

	account for any tax unless the amounts payable to the LLP are in accordance with the documentation governing the relevant payments increased so that the LLP receives the amount which the LLP would have received absent the obligations to withhold or otherwise account for the relevant tax and if these conditions are not met, the extent to which they are not met is taken into account by the Cash Manager in determining the purchase price of the Substitution Asset in question
<b>sub-unit</b>	In accordance with Condition 4.6(i) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Terms and Conditions, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01
<b>Swap Agreements</b>	Any Covered Bond Swap Agreements together with the Interest Rate Swap Agreement, and each a <b>Swap Agreement</b>
<b>Swap Collateral</b>	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed
<b>Swap Collateral Accounts</b>	Any account in the name of the LLP held with Lloyds TSB Bank plc (or any other Account Bank from time to time) into which collateral in respect of the Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of the relevant Swap Agreement
<b>Swap Collateral Available Amounts</b>	At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP following termination of a Swap Agreement to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priority of Payments or the Guarantee Priority of Payments
<b>Swap Collateral Excluded Amounts</b>	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreement and ultimately upon termination of the relevant Swap Agreement
<b>Swap Provider Default</b>	The occurrence of an Event of Default or Termination Event (each as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreements), as applicable, other than a Swap Provider Downgrade Event
<b>Swap Provider Downgrade Event</b>	The occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement
<b>Swap Providers</b>	Each Covered Bond Swap Providers and the Interest Rate Swap Provider, and each a <b>Swap Provider</b>
<b>Swap Provider Tax Payment</b>	Any indemnity payment received by the LLP from a Swap Provider as a result of a breach of certain tax representations in the relevant Swap Agreement
<b>Swaps</b>	Any Covered Bond Swaps together with the Interest Rate Swap, and each a <b>Swap</b>

<b>Talons</b>	The Talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Covered Bonds (other than Zero Coupon Covered Bonds), such talons being substantially in the form set out in the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and includes any replacements for Talons issued pursuant to Condition 10 ( <i>Replacement of Covered Bonds, Receipts, Coupons and Talons</i> ) of the Terms and Conditions
<b>TARGET2 System</b>	In accordance with Condition 4.6(a)(ii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ), the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system thereto
<b>Tax Credit</b>	The meaning given in the relevant Swap Agreement
<b>Taxes</b>	All present and future taxes, levies, imposts, duties (other than stamp duty), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, VAT or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and <b>Tax</b> and <b>Taxation</b> shall be construed accordingly
<b>Temporary Global Covered Bond</b>	A temporary global covered bond substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer relating to the Programme, the Agency Agreement and the trust presents
<b>Term Advance</b>	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement
<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed)
<b>Third Party Amounts</b>	Each of: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such a bank is unable to recoup that amount itself from the customer's account; or</li> <li>(b) payments by Borrowers of insurance premiums and other expenses due to external parties</li> </ul> <p>which amounts shall be paid on receipt by the LLP to the Seller from moneys transferred to the Transaction Account from the GIC Account</p>
<b>Title Deeds</b>	In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents (if any) which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage
<b>Tracker Loan</b>	A Loan where interest is linked to the Bank of England's official dealing rate (the repo rate) as set by the UK Monetary Policy Committee or such alternative rate or index which is not controlled by the Seller, that the Seller considers to be the most appropriate in the



	circumstances
<b>Tracker Rate</b>	The rate of interest applicable to a Tracker Loan (before applying any cap or minimum rate)
<b>Tranche</b>	An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading)
<b>Transaction Account</b>	The account in the name of the LLP held with Lloyds TSB Bank plc and maintained subject to the terms of the Bank Account Agreement, the Deed of Charge and the LLP Deed or such additional or replacement account as may for the time being be in place pursuant to the Cash Management Agreement with the prior consent of the Security Trustee and designated as such
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>(a) Mortgage Sale Agreement</li> <li>(b) each Scottish Declaration of Trust</li> <li>(c) Servicing Agreement</li> <li>(d) Asset Monitor Agreement</li> <li>(e) Intercompany Loan Agreement</li> <li>(f) LLP Deed</li> <li>(g) Cash Management Agreement</li> <li>(h) Interest Rate Swap Agreement</li> <li>(i) each Covered Bond Swap Agreement</li> <li>(j) Bank Account Agreement</li> <li>(k) Corporate Services Agreement</li> <li>(l) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)</li> <li>(m) Trust Deed</li> <li>(n) Agency Agreement</li> <li>(o) Programme Agreement</li> <li>(p) Guaranteed Investment Contract</li> <li>(q) the Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(r) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(s) Master Definitions and Construction Agreement</li> <li>(t) Parent Support Deed</li> <li>(u) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond Trustee and/or Security Trustee</li> </ul>
<b>Transfer Agent</b>	In relation to all or any Series of Registered Covered Bonds, The Bank of New York Mellon, in its capacity as transfer agent or, if applicable, any successor transfer agent in relation to all or any Series of Registered Covered Bonds
<b>Transfer Certificate</b>	The meaning given in Condition 2(e)(i) ( <i>Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. persons</i> ) of the Terms and Conditions

<b>Trust Deed</b>	The trust deed entered into on the Programme Date between the Issuer, the LLP, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>UK Listing Authority</b>	The FSA in its capacity as competent authority under the FSMA
<b>Underpayment</b>	A reduced payment by a Borrower (including any payment made under a Flexible Loan) and where such reduced payment is in place of the Monthly Payment set out in the Offer Conditions or as agreed by the Seller (acting as a Reasonable, Prudent Mortgage Lender) due to existing overpayments in accordance with its standard lending practice (or any changed Monthly Payment subsequently notified to the Borrower), where there are sufficient available funds to fund the difference between the Monthly Payment and this reduced payment and where the Borrower is not in breach of the Mortgage Conditions for making such payment
<b>Unfair Practices Directive</b>	Directive 2005/29/EC of 11 May 2005 on unfair business-to-consumer commercial practices and amending Council Directive 84/450/ECC and others
<b>Unlegended Covered Bond</b>	Any Registered Covered Bond which is not a Legended Covered Bond
<b>UTCCR</b>	The Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159) and the 1999 Regulations
<b>Valuation Report</b>	The valuation report or reports for mortgage purposes, in the form of the proforma report contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the Seller (or his successor)
<b>Valuer</b>	An Associate or Fellow of the Royal Institute of Chartered Surveyors who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors
<b>Variable Interest Covered Bonds</b>	Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable
<b>Variable Rate Loan</b>	A Loan which is subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Conditions in accordance with the relevant Standard Variable Rate (and shall, for the avoidance of doubt, exclude Fixed Rate Loans and Tracker Loans)
<b>Yield Shortfall Test</b>	The meaning given on page 170
<b>Zero Coupon Covered Bonds</b>	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

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