

## IMPORTANT NOTICE

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This prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the prospectus by electronic transmission, (c) you are either (i) not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States (**U.S.**), its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia or (ii) a qualified institutional buyer (as defined in Rule 144A under the Securities Act), (d) if you are a person in the UK, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005 and (e) if you are a person in Australia, a person who is not a “retail client” (as defined in Section 761G of the Corporations Act 2001 (Cth) of Australia (the **Corporations Act**)) and in respect of whom disclosure is not required under Part 6D.2 or Part 7.9 of the Corporations Act.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Lloyds Bank plc or any other Dealer appointed from time to time (nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Lloyds Bank plc.



**LLOYDS BANK**

**LLOYDS BANK PLC**

*(incorporated with limited liability in England and Wales registered number 2065)*

**€60 billion**

**Global Covered Bond Programme**

**unconditionally and irrevocably guaranteed as to payments of interest and principal by  
LLOYDS BANK COVERED BONDS LLP**

*(a limited liability partnership incorporated in England and Wales registered number OC340094)*

Under this €60 billion global covered bond programme (the **Programme**), Lloyds Bank plc (formerly 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 Bank Covered Bonds LLP (formerly 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 €60 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 (as amended or superseded), which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant member state (the **Prospectus Directive**). Application has been made to the Financial Conduct Authority (the **FCA**) which is the United Kingdom (**UK**) competent authority under Part VI of the Financial Services and Markets Act 2000 (the **FSMA**) for the purposes of the Prospectus Directive and relevant implementing measures in the UK for approval of this Prospectus as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the UK 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 FCA (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 2014/65/EC (as amended or superseded, **MiFID II**) (the **regulated market of the London Stock Exchange**) during the period of 12 months from the date of this Prospectus.

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated "A+" by S&P, "Aa3" by Moody's and "A+" by Fitch; and (ii) short-term senior obligations of the Issuer are rated "A-1" by S&P, "P-1" by Moody's and "F1" by Fitch. Each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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 and the issue price 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 FCA and the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

The Issuer may issue N Covered Bonds from time to time, which will not be issued pursuant to this Prospectus, or pursuant to any Final Terms under this Prospectus.

The FCA has neither approved or reviewed information contained in this Prospectus in connection with any N Covered Bonds.

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 Bonds Regulations (SI 2008/346) as amended by the Regulated Covered Bonds (Amendment) Regulations 2008 (SI 2008/1714), the Regulated Covered Bonds (Amendment) Regulations 2011 (SI 2011/2859) and the Regulated Covered Bonds (Amendment) Regulations 2012 (SI 2012/2977) (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 U.S. or to, or for the benefit of, U.S. persons as defined in Regulation S under the Securities Act (**Regulation S**) 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 and in accordance with all applicable state securities laws. 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 is not licensed in Australia to provide financial product advice (as that term is defined in Section 766B of the Corporations Act 2001 (Cth) of Australia (the **Corporations Act**)) in respect of its financial products, including the A\$ Registered Covered Bonds. Cooling off rights do not apply to the acquisition of the A\$ Registered Covered Bonds in Australia. The offer and sale of the A\$ Registered Covered Bonds within Australia will be subject to certain restrictions set out in this Prospectus.

Neither this Prospectus nor any other disclosure document in relation to the A\$ Registered Covered Bonds has been, and nor will any such document be, lodged with the Australian Securities and Investments Commission (**ASIC**) and no such document is, and nor does it purport to be, a document containing disclosure to investors for the purposes of Part 6D.2 or Part 7.9 of the Corporations Act. This Prospectus is not intended to be used in connection with any offer for which such disclosure is required and this document does not contain all the information that would be required by those provisions if they applied. This Prospectus is not to be provided to any 'retail client' as defined in section 761G of the Corporations Act and this document does not take into account the individual objectives, financial situation or needs of any prospective investor. In addition, no securities regulatory authority has reviewed information contained in the Prospectus in connection with the A\$ Registered Covered Bonds.

Neither the Issuer nor the LLP is a bank nor an authorised deposit-taking institution which is authorised under the Banking Act 1959 (Cth) of Australia (the **Australian Banking Act**) nor are either of them authorised to carry on banking business under the Australian Banking Act. The Covered Bonds are not obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia. Neither the Issuer nor the LLP is supervised by the Australian Prudential Regulation Authority. Covered Bonds that are offered for issue or sale or transferred in, or into, Australia are offered only in circumstances that would not require disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act and issued and transferred in compliance with the

terms of the exemption from compliance with section 66 of the Australian Banking Act that is available to the Issuer. Such Covered Bonds are issued or transferred in, or into, Australia in parcels of not less than A\$500,000 in aggregate principal amount. An investment in any Covered Bonds issued by the Issuer will not be covered by the depositor protection provisions in section 13A of the Australian Banking Act and will not entitle Covered Bondholders to claim under the financial claims scheme under Division 2AA of the Australian Banking Act.

Amounts payable on Floating Rate Covered Bonds may be calculated by reference to one of LIBOR, EURIBOR, BBSW, SONIA or SOFR as specified in the relevant Final Terms. As at the date of this prospectus, the administrator of LIBOR is included in ESMA's register and the administrators of EURIBOR, BBSW, SONIA and SOFR are not included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that European Money Markets Institute, ASX Limited, Bank of England and Federal Reserve Bank of New York are not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

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. Whether or not each credit rating applied for in relation to a relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EU) No 1060/2009 (as amended or superseded) (the **CRA Regulation**) will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Each of Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such each of Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Credit ratings are for distribution only to a person (a) who is not a "retail client" within the meaning of section 761G of the Corporations Act and is also a sophisticated investor, professional investor or other investor in respect of whom disclosure is not required under Part 6D.2 or Part 7.9 of the Corporations Act, and (b) who is otherwise permitted to receive credit ratings in accordance with applicable law in any jurisdiction in which the person may be located. Anyone who is not such a person is not entitled to receive this Prospectus and anyone who receives this Prospectus must not distribute it to any person who is not entitled to receive it.

**Neither the United States Securities and Exchange Commission nor any state securities commission in the U.S. nor any other U.S. regulatory authority has approved or disapproved the Covered Bonds or determined that this Prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the U.S..**

**Arranger for the Programme**  
**Lloyds Bank Corporate Markets**  
**Dealer**

**Lloyds Bank Corporate Markets**

The date of this Prospectus is 8 May 2019

This Prospectus has been approved by the FCA as a base prospectus for the purposes of Article 5.4 of 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**) and the Final Terms of each Tranche of Covered Bonds issued under the Programme. 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. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in the document) and, as far as each of the Issuer and the LLP are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

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/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).

This Prospectus is to be read in conjunction with any supplementary prospectus hereto, all documents which are deemed to be incorporated herein by reference (see the section entitled *Documents Incorporated by Reference* below) and any Final Terms. 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. 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.

## **MIFID II PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II Product Governance" which outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS:** The Covered Bonds are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded) (the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended or superseded, the **PRIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

**SINGAPORE SFA PRODUCT CLASSIFICATION:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), unless otherwise specified before an offer of any Covered Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that all Covered Bonds issued or to be issued under the Programme shall be 'capital markets products other than 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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 U.S., the European Economic Area (including the UK, The Netherlands, the Republic of Italy, Germany and the Republic of France), Switzerland, Australia 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 (other than A\$ Registered Covered Bonds), one or more relevant Dealer(s) acting as the stabilising manager(s) (the **Stabilising Manager(s)**) 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 (in each case outside Australia and not on any market in Australia). However stabilisation may not necessarily occur. 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 cease 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.

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.

None of the relevant Dealer(s), 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.

### *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, (3) Covered Bonds can be used as repo-eligible securities, (4) other restrictions apply to its purchase or pledge of any Covered Bonds and (5) the Covered Bonds may be treated as liquid assets. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

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.



## 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 U.S., 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 U.S. or its possessions, or for the account or benefit of, or to U.S. persons, except in certain transactions permitted by U.S. Treasury 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 U.S. Treasury regulations promulgated thereunder.

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 U.S. to 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 U.S. is not authorised. 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.

As set forth in the applicable Final Terms, the Covered Bonds are being offered and sold (a) in reliance on Rule 144A, in each case to "qualified institutional buyers" (as defined in Rule 144A) (**QIBs**) (such Covered Bonds, the **Rule 144A Covered Bonds**) and/or (b) in accordance with Regulation S to non-U.S. persons in offshore transactions (such Covered Bonds, the **Regulation S Covered Bonds**). 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.

Registered Covered Bonds may be offered or sold within the U.S. 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.

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*.

## AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act 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 U.S. and all or a substantial portion of the assets of the Issuer and the LLP are located outside the U.S.. As a result, it may not be possible for investors to effect service of process within the U.S. 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 U.S. 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 U.S. 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 U.S. courts of civil liabilities predicated solely upon the federal securities laws of the U.S..

## **FORWARD LOOKING STATEMENTS**

Certain statements included herein may constitute forward looking statements with respect to the business, strategy, plans and/or results of Lloyds Banking Group or the Group and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about the 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 circumstances that will or may occur in the future.

Examples of such forward looking statements include, but are not limited to: projections or expectations of the Group's future financial position including profit attributable to shareholders, provisions, economic profit, dividends, capital structure, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets, expenditures or any other financial items or ratios; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; statements of plans, objectives or goals of the Group or its management including in respect of statements about the future business and economic environments in the United Kingdom (UK) and elsewhere including, but not limited to, future trends in interest rates, foreign exchange rates, credit and equity market levels and demographic developments; statements about competition, regulation, disposals and consolidation or technological developments in the financial services industry; and statements of assumptions underlying such statements.

Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from forward looking statements made by the Group or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in interest rates, inflation, exchange rates, stock markets and currencies; the ability to access sufficient sources of capital, liquidity and funding when required; changes to Lloyds Banking Group's or the Group's credit ratings; the ability to derive cost savings and other benefits including, but without limitation as a result of any acquisitions, disposals and other strategic transactions; the ability to achieve strategic objectives; changing customer behaviour including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; concentration of financial exposure; management and monitoring of conduct risk; instability in the global financial markets, including Eurozone instability, instability as a result of uncertainty surrounding the exit by the UK from the European Union (EU) and as a result of such exit and the potential for other countries to exit the EU or the Eurozone and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to the security of IT and operational infrastructure, systems, data and information resulting from increased threat of cyber and other attacks; natural, pandemic and other disasters, adverse weather and similar contingencies outside Lloyds Banking Group's or the Group's control; inadequate or failed internal or external processes or systems; acts of war, other acts of hostility, terrorist acts and responses to those acts, geopolitical, pandemic or other such events; risks related to climate change; changes in laws, regulations, accounting standards or taxation, including as a result of the exit by the UK from the EU, or a further possible referendum on Scottish independence; changes to regulatory capital or liquidity requirements and similar contingencies outside the Lloyds Banking Group's or the Group's control; the policies, decisions and actions of governmental or regulatory authorities or courts in the UK, the EU, the United States or elsewhere including the implementation and interpretation of key legislation and regulation together with any resulting impact on the future structure of the Group; the transition from interbank offered rates to alternative reference rates; the ability to attract and retain senior management and other employees and meet its diversity objectives; actions or omissions by the Group's directors, management or employees including industrial action; changes to the Group's post-retirement defined benefit scheme obligations; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; the value and effectiveness of any credit protection purchased by the Group; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services, lending companies and digital innovators and disruptive technologies; and exposure to regulatory or competition scrutiny, legal, regulatory or competition proceedings, investigations or complaints.

The Group may also make or disclose written and/or oral forward looking statements in its annual reviews, half-year announcements, proxy statements, offering circulars, prospectuses, press releases and other written

materials and in oral statements made by the directors, officers or employees of the Group to third parties, including financial analysts. Except as required by any applicable law or regulation, the forward looking statements contained in this Prospectus are made as of the date hereof, and the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statements contained in this Prospectus to reflect any change in the Group'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*.**

## CERTAIN DEFINITIONS

In this Prospectus, reference to:

**Affiliate** is to, in relation to any entity (the **First Entity**), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity, where, for these purposes, “**control**” means ownership of a majority of the voting power of an entity;

**Company or LBG** is to Lloyds Banking Group plc;

**FCA** is to the United Kingdom Financial Conduct Authority;

**FSA** is to the United Kingdom Financial Services Authority;

**FSMA** is to the Financial Services and Markets Act 2000;

**HBOS Group** or **HBOS** is to HBOS plc and its subsidiary and associated undertakings;

**Issuer** or **Lloyds Bank** or **Bank** is to Lloyds Bank plc;

**LBCM** is to Lloyds Bank Corporate Markets plc;

**Lloyds Bank Group, Lloyds** or the **Group** is to the Issuer and its subsidiary and associated undertakings;

**Lloyds Banking Group** is to the Company and its subsidiary and associated undertakings (including the members of Lloyds Bank Group);

**PRA** is to the United Kingdom Prudential Regulation Authority;

**UK** is to the United Kingdom; and

**U.S.** is to the United States of America.

## **PRESENTATION OF FINANCIAL INFORMATION**

In this Prospectus, references to the “**consolidated financial statements**” or “**financial statements**” are to Lloyds Bank Group's consolidated financial statements included in the Issuer's 2018 Annual Report, unless indicated otherwise.

The consolidated financial statements of the Issuer incorporated by reference within the Prospectus have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU.

## TABLE OF CONTENTS

Principal Characteristics of the Programme.....	14
Documents Incorporated by Reference .....	15
Structure Overview .....	17
Overview of the Programme .....	24
Risk Factors .....	32
Form of the Covered Bonds .....	102
Form of Final Terms .....	106
Terms and Conditions of the Covered Bonds .....	115
Use of Proceeds.....	162
Lloyds Bank Group.....	163
The LLP .....	175
Summary of the Principal Documents .....	178
Credit Structure.....	211
Cashflows.....	215
The Portfolio .....	226
Description of the UK Regulated Covered Bond Regime .....	235
Description of Limited Liability Partnerships .....	237
Book-Entry Clearance Systems .....	238
Taxation .....	242
ERISA Considerations .....	251
Subscription and Sale and Transfer and Selling Restrictions .....	253
General Information.....	262
Glossary .....	265

## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

<b>Issuer:</b>	Lloyds 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> ).
<b>Guarantor:</b>	Lloyds Bank 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>Compliant with the Banking Consolidation Directive (Directive 2006/48/EC (as amended)):</b>	Yes, the Programme is intended to be compliant with the Banking Consolidation Directive
<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>Asset Coverage Test:</b>	Yes, see further <i>Summary of the Principal Documents – LLP Deed – Asset Coverage Test</i>
<b>Statutory minimum overcollateralisation:</b>	The eligible property (as defined in the RCB Regulations) in the asset pool must be more than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds
<b>Statutory interest cover test:</b>	The interest received on the eligible property must be equal to or greater than interest due on the Covered Bonds over a twelve month period
<b>Amortisation Test:</b>	Yes, see further <i>Summary of the Principal Documents – LLP Deed – Amortisation Test</i>
<b>Reserve Fund:</b>	Yes, see further <i>Credit Structure – Reserve Fund</i>
<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>	Yes
<b>A\$ Registered Covered Bond Option:</b>	Yes
<b>Single / multi asset pool designation:</b>	Single asset pool, consisting of residential mortgage loans and liquid assets
<b>Substitution Assets:</b>	Asset backed securities are not eligible property and cannot form part of the Asset Pool

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which shall be deemed to be incorporated in, and form part of, this Prospectus:

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

- (i) The Issuer's Annual Report and Accounts 2018, including the Issuer's audited consolidated annual financial statements for the financial year ended 31 December 2018, together with the audit report thereon, as set out on pages 20 to 146 and 13 to 19 thereof, respectively (the **Issuer's 2018 Annual Report**);
- (ii) The Issuer's Annual Report and Accounts 2017 including the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2017, together with the audit report thereon, as set out on pages 21 to 145 and 12 to 20, respectively (the **Issuer's 2017 Annual Report**); and
- (iii) The Issuer's Q1 2019 Interim Management Statement of the Issuer for the three months ended 31 March 2019, which have previously been filed with the Financial Conduct Authority.

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

- (i) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2017, together with the audit report thereon (the **LLP's 2017 Annual Report**);
- (ii) The Member's Report and audited Financial Statements of the LLP for the financial period ended 31 December 2018, together with the audit report thereon (the **LLP's 2018 Annual Report**);
- (iii) The stratification tables in the Asset Coverage and Investor Report dated March 2019 as set out on pages 3, 4 and 5;
- (iv) The terms and conditions of the Covered Bonds set out on pages 98 to 133 (inclusive) of the Prospectus dated 11 January 2010 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (v) The terms and conditions of the Covered Bonds set out on pages 98 to 133 (inclusive) of the Prospectus dated 4 June 2010 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (vi) The terms and conditions of the Covered Bonds set out on pages 110 to 145 (inclusive) of the Prospectus dated 23 August 2010 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (vii) The terms and conditions of the Covered Bonds set out on pages 110 to 143 (inclusive) of the Prospectus dated 27 May 2011 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (viii) The terms and conditions of the Covered Bonds set out on pages 118 to 153 (inclusive) of the Prospectus dated 20 April 2012 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (ix) The terms and conditions of the Covered Bonds set out on pages 95 to 130 (inclusive) of the Prospectus dated 7 June 2013 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (x) The terms and conditions of the Covered Bonds set out on pages 100 to 135 (inclusive) of the Prospectus dated 7 April 2014 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (xi) The terms and conditions of the Covered Bonds set out on pages 99 to 134 (inclusive) of the Prospectus dated 19 June 2015 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (xii) The terms and conditions of the Covered Bonds set out on pages 102 to 136 (inclusive) of the Prospectus dated 31 March 2016 and prepared by the Issuer and the Guarantor in connection with the Programme;
- (xiii) The terms and conditions of the Covered Bonds set out on pages 104 to 139 (inclusive) of the Prospectus dated 30 March 2017 and prepared by the Issuer and the Guarantor in connection with the Programme; and



- (xiv) The terms and conditions of the Covered Bonds set out on pages 112 to 150 (inclusive) of the Prospectus dated 17 April 2018 and prepared by the Issuer and the Guarantor in connection with the Programme,

all of which have been previously published and filed with the FCA 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 or information themselves incorporated by reference in, or cross-referred to in, the documents incorporated by reference in this Prospectus shall not form part of this Prospectus unless also separately incorporated by reference above. In each case, where only certain sections of a document referred to above are incorporated by reference in the Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Covered Bonds or are covered elsewhere in 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.

Copies of all documents incorporated by reference in this Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).

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 **Supplemental 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 *Subscription and Sale and Transfer and Selling Restrictions* in this Prospectus) that it will comply with section 87G of the FSMA.

*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.*

The diagram illustrates the Lloyds Bank Covered Bonds Structure, showing the relationships between various entities and the flow of funds and securities.

**Entities:**

- Lloyds Bank plc (Seller)
- Bank of Scotland plc
- Lloyds Bank Covered Bonds LLP (LLP)
- Lloyds Bank plc (Issuer)
- Covered Bondholders/Bond Trustee and Security Trustee
- Lloyds Bank plc (Interest Rate Swap Provider)
- Covered Bond Swap Provider

**Flows and Relationships:**

- Loans (including but not limited to Halifax Loans) and Related Security:** Lloyds Bank plc (Seller) provides loans and related security to Lloyds Bank Covered Bonds LLP (LLP).
- Consideration:** Lloyds Bank Covered Bonds LLP (LLP) provides consideration to Lloyds Bank plc (Seller).
- Intercompany Loan:** Lloyds Bank plc (Issuer) provides an intercompany loan to Lloyds Bank Covered Bonds LLP (LLP).
- Repayment of Intercompany Loan:** Lloyds Bank Covered Bonds LLP (LLP) repays the intercompany loan to Lloyds Bank plc (Issuer).
- Covered Bonds:** Lloyds Bank plc (Issuer) issues covered bonds to Covered Bondholders/Bond Trustee and Security Trustee.
- Covered Bond Proceeds:** Covered Bondholders/Bond Trustee and Security Trustee provides covered bond proceeds to Lloyds Bank plc (Issuer).
- Covered Bond Guarantee and Deed of Charge:** Covered Bondholders/Bond Trustee and Security Trustee provides a covered bond guarantee and deed of charge to Lloyds Bank Covered Bonds LLP (LLP).
- Consideration:** Lloyds Bank plc (Seller) provides consideration to Bank of Scotland plc.
- Halifax Loans:** Bank of Scotland plc provides Halifax loans to Lloyds Bank plc (Seller).
- Lloyds Bank plc (Interest Rate Swap Provider):** Lloyds Bank plc (Interest Rate Swap Provider) provides interest rate swap services to Lloyds Bank Covered Bonds LLP (LLP).
- Covered Bond Swap Provider:** Covered Bond Swap Provider provides covered bond swap services to Lloyds Bank Covered Bonds LLP (LLP).

- *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:
  - (a) 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
  - (b) 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:

- (a) 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); and
- (b) 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.

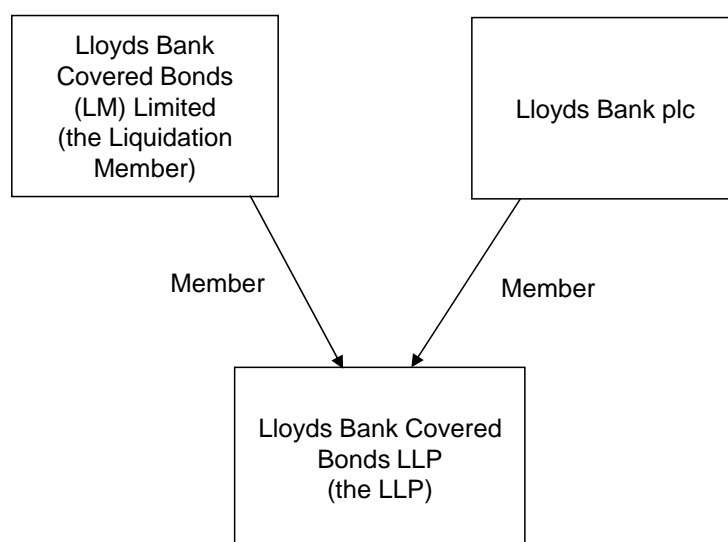
- *Pre-Maturity Liquidity Test:* Hard Bullet Covered Bonds will be subject to a Pre-Maturity Liquidity Test. This provides liquidity for Hard Bullet Covered Bonds if the Issuer's credit ratings fall to or below the specified level. On each Pre-Maturity Liquidity Test Date of any Series of Hard Bullet 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 or (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") BOS 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:* On the Programme Date, C&G was appointed by the LLP as servicer of the Loans in the Portfolio pursuant to the terms of the Servicing Agreement to administer the Loans and their Related Security in the Portfolio. On 20 April 2012, C&G novated its role as Servicer to Lloyds Bank plc pursuant to the Deed of Novation. In its capacity as Servicer, Lloyds Bank plc 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. As at the date of this Prospectus, Lloyds Bank plc has delegated such functions to BOS (in respect of those Loans which are Halifax Loans) as sub-servicer to continue to perform such duties under the Servicing Agreement.
- *Risks relating to the Group:* The Issuer and the Group may be subject to a number of risks set out below in "Risk Factors" which include risks: relating to borrower and counterparty credit quality; relating to concentrations of credit and market risk; relating to adverse regulatory developments or changes in UK Government, EU or U.S. policy, including capital adequacy requirements; associated with the Banking Act 2009 and the proposed Banking Reform Bill relating to competition and related issues; arising from general macro-economic conditions in the UK, the U.S., the Eurozone, Asia and globally, and any resulting instability financial markets or banking systems; of material negative changes to the estimated fair values of financial assets of the Group; relating to the competitive environment in which the Group operates; that the Group could fail to attract or retain senior management or other key employees; of weaknesses or failures in the Group's internal processes, systems and security as a result of internal and/or external events; relating to cybercrime; arising from terrorist acts, other acts of war, geopolitical events, pandemics, or other such events; relating to TSB servicing requirements; associated with the implementation of anti-money laundering policies (and related activities); concerning the complete or partial failure to execute ongoing strategic change initiatives; associated with industrial action and increased labour costs; concerning borrowing costs and the Group's access to liquidity and sources of funding; relating to the real or perceived shortage of capital resources; relating to the Group's insurance business and employee pension schemes; relating to the shareholding of the Solicitor for the Affairs of HM Treasury in the Company; of assumptions and estimates on which the Group's financial statements are based being wrong; associated with changes in taxation rates, accounting policy, law or interpretation of the law. Covered Bondholders should note that the risks that are stated to apply to "the Group" apply also to the Issuer. 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 may rely 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.

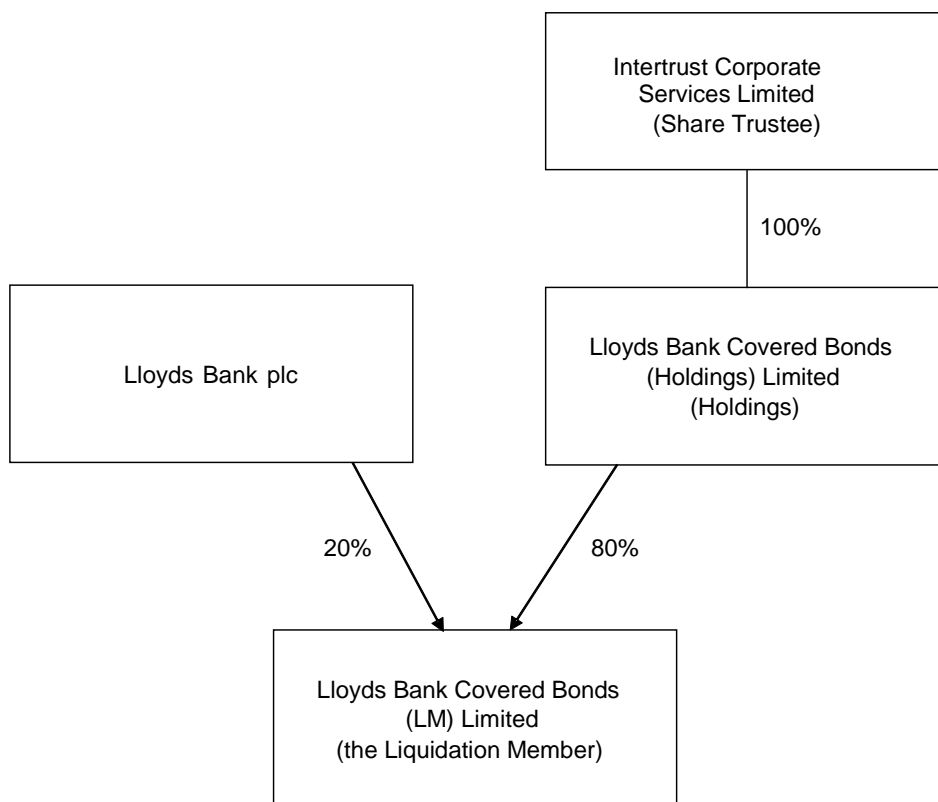
### Ownership Structure of Lloyds Bank Covered Bonds LLP

- As at the Programme Date, the Members of the LLP are Lloyds 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 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 Bank plc or a disposal of Lloyds Bank plc's interest in the Liquidation Member such that Lloyds 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 Bank plc will automatically cease to be a Member of the LLP, the balance of any Capital Contributions outstanding of Lloyds 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 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 Bank plc and 80 per cent. by Lloyds Bank Covered Bonds (Holdings) Limited (**Holdings**).
- The issued capital of Holdings is held 100 per cent. by Intertrust Corporate Services Limited (formerly known as SFM Corporate Services Limited) as Share Trustee on trust for the benefit of certain discretionary objects.





## OVERVIEW OF THE PROGRAMME

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 and the relevant Final Terms.

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 Bank plc

Lloyds Bank plc (the **Issuer** or **Lloyds Bank**) 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**).

As at the date of this Prospectus, the Issuer is the principal operating subsidiary of Lloyds Banking Group. The Issuer and its subsidiary and associated undertakings (**Lloyds Bank Group**, **Lloyds** or the **Group**) is a leading provider of financial services to individual and business customers in the UK. As at the date of this Prospectus, its main business activities are retail and commercial banking.

### Issuer Legal Entity Identifier (LEI):

H7FNTJ4851HG0EXQ1Z70

### LLP:

Lloyds Bank Covered Bonds LLP (formerly known as Lloyds TSB Covered Bonds LLP), a limited liability partnership incorporated in England and Wales (registered no. OC340094). The LLP is a subsidiary of Lloyds Bank plc and its Members on the Programme Date are Lloyds Bank plc and the Liquidation Member. The LLP is a special purpose vehicle whose business is to borrow Term Advances from the Issuer, to 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 Bank plc acting through its office at 25 Gresham Street, London EC2V 7HN, 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:

On the Programme Date, C&G was appointed as servicer and entered into the Servicing Agreement with the LLP and the Security Trustee, pursuant to which it 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. On 20 April 2012, C&G novated its role as Servicer

to Lloyds Bank plc pursuant to the Deed of Novation. As at the date of this Prospectus, Lloyds Bank plc has delegated such functions to BOS (in respect of those Loans which are Halifax Loans) as sub-servicer to continue to perform such duties under the Servicing Agreement.

<b>Cash Manager:</b>	In October 2008, C&G was also appointed, <i>inter alia</i> , 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. On 20 April 2012, C&G novated its role as Cash Manager to Lloyds Bank plc pursuant to the Deed of Novation.
<b>Principal Paying Agent and Agent Bank:</b>	The Bank of New York Mellon acting through its office at One Canada Square, London E14 5AL, has been appointed pursuant to the Agency Agreement as Principal Paying Agent and Agent Bank.
<b>Australian Paying Agent and Australian Calculation Agent:</b>	BTA Institutional Services Australia Limited (ABN 48 002 916 396) of Level 2, 1 Bligh Street, Sydney NSW 2000, Australia has been appointed pursuant to the Supplemental Agency Agreement as Australian Paying Agent and the Australian Calculation Agent in relation to A\$ Registered Covered Bonds.
<b>Exchange Agent:</b>	The Bank of New York Mellon acting through its office at One Canada Square, London E14 5AL, has been appointed pursuant to the Agency Agreement as exchange agent.
<b>Registrar:</b>	The Bank of New York Mellon SA/NV, Luxembourg Branch, whose registered office is at Vertigo Building-Polaris – 2-4 rue Eugène Ruppert L-2453 – Luxembourg, has been appointed pursuant to the Agency Agreement as registrar.
<b>Australian Registrar:</b>	BTA Institutional Services Australia Limited (ABN 48 002 916 396) of Level 2, 1 Bligh Street, Sydney NSW 2000, Australia has been appointed pursuant to the Supplemental Agency Agreement as Australian Registrar in relation to A\$ Registered Covered Bonds.
<b>Bond Trustee:</b>	BNY Mellon Corporate Trustee Services Limited, acting through its office at 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.
<b>Australian Bond Trustee:</b>	The Bank of New York Mellon acting through its office at One Canada Square, London E14 5AL, has been appointed to act as Australian bond trustee on behalf of the A\$ Covered Bondholders in respect of the A\$ Registered Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the A\$ Covered Bondholders pursuant to the Trust Deed.
<b>Security Trustee:</b>	BNY Mellon Corporate Trustee Services Limited, acting through its office at 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.
<b>Asset Monitor:</b>	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.
<b>Covered Bond Swap Provider:</b>	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:

- (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
- (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,

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. The Covered Bond Swap Provider shall satisfy the rating requirements set out in the relevant Covered Bond Swap Agreement, as to which see "*Summary of the Principal Documents – Covered Bond Swap Agreements*" below.

**Interest Rate Swap Provider:**

Lloyds Bank plc whose registered office is at 25 Gresham Street, London EC2V 7HN, 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 an 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 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 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 0LS (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 Bank Covered Bonds (LM) Limited (formerly known as 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 Bank plc.

**Holdings:**

Lloyds Bank Covered Bonds (Holdings) Limited (formerly known as 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:**

Intertrust Corporate Services Limited (formerly known as 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.

<b>Corporate Services Provider:</b>	Intertrust Management Limited (formerly known as 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.
<b>Programme description:</b>	Global Covered Bond Programme.
<b>Arranger:</b>	Lloyds Bank Corporate Markets plc, acting through its office at 10 Gresham Street, London EC2V 7AE.
<b>Relevant Dealer:</b>	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 Bank Corporate Markets plc, acting through its office at 10 Gresham Street, London EC2V 7AE (referred to throughout this Prospectus as the <b>Dealer</b> ).
<b>Certain restrictions:</b>	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.
<b>Programme size:</b>	Up to €60 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.
<b>Distribution:</b>	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 and Selling Restrictions</i> below.
<b>Specified Currency:</b>	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).
<b>Redenomination:</b>	The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro.
<b>Maturities:</b>	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.
<b>Issue Price:</b>	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.
<b>Form of Covered Bonds:</b>	The Covered Bonds may be issued in bearer or registered form as described in <i>Form of the Covered Bonds</i> . Registered Covered Bonds and A\$ Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and <i>vice versa</i> .
<b>Fixed Rate Covered Bonds:</b>	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).
<b>Floating Rate Covered Bonds:</b>	Floating Rate Covered Bonds will bear interest at a rate determined: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest</li> </ul>

rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer,

as set out in the applicable Final Terms.

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.

**Other provisions in relation to Floating Rate Covered Bonds:**

Floating Rate 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 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.

**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.

**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 **Hard Bullet Covered Bonds**). 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 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 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 as may be agreed between the Issuer and the relevant Dealer.

**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 €100,000 (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 at least U.S.\$200,000 (and no less than the equivalent of €100,000), or its approximate equivalent in other Specified Currencies provided that it shall not be less than the equivalent of €100,000.

**Taxation:**

All payments by the Issuer in respect of the Covered Bonds will be made without deduction or withholding for or on account of UK or Australian taxes, save as provided in Condition 7 (*Taxation*). If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7 (*Taxation*), 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 amounts in respect of any such additional amounts payable by the Issuer under Condition 7 (*Taxation*).

**ERISA:**

Unless otherwise stated in the applicable Final Terms, a Covered Bond may be purchased by an "employee benefit plan" as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or any entity whose underlying assets include the assets of any such employee benefit plan or plan, subject to certain conditions. See *ERISA Considerations*.

**Cross Default for Covered Bonds:**

If an LLP Acceleration Notice is served in respect of any one Series of

	<p>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.</p>
<b>Status of the Covered Bonds:</b>	<p>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.</p>
<b>Covered Bond Guarantee:</b>	<p>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.</p>
<b>Ratings:</b>	<p>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.</p> <p>The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended (the <b>CRA Regulation</b>) will be disclosed in the Final Terms. For more information see <i>Risk Factors—Ratings of the Covered Bonds</i> in this Prospectus.</p>
<b>Listing and admission to trading:</b>	<p>Application has been made to admit the Covered Bonds issued under the Programme and pursuant to the Prospectus to the Official List and to admit the Covered Bonds to trading on the regulated market of the London Stock Exchange.</p>
<b>Clearing:</b>	<p>The Covered Bonds (other than A\$ Registered Covered Bonds) will be eligible to clear through any of the Clearing Systems as indicated in the relevant Final Terms. It is anticipated that, Regulation S Covered Bonds and Rule 144A Covered Bonds (denominated in a currency other than U.S. Dollars) will clear through Euroclear and/or Clearstream, Luxembourg and that U.S. dollar denominated Rule 144A Covered Bonds will clear through DTC.</p> <p>The Issuer may apply to Austraclear Limited (ABN 94 002 060 773) (Austraclear) for approval for the A\$ Registered Covered Bonds to be traded on the settlement system operated by Austraclear (Austraclear System). Such approval of the A\$ Registered Covered Bonds is not a recommendation or endorsement by Austraclear of the A\$ Registered Covered Bonds.</p> <p>Covered Bonds may be cleared through a Clearing System or, particularly in the case of Definitive Covered Bonds, may not be cleared through any Clearing System. Covered Bonds may also be cleared through a clearing system other than the Clearing Systems, as may be agreed between the Issuer, the Bond Trustee and the Principal Paying Agent 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 cleared and, if so, in which clearing system.</p>

<b>The RCB Regulations:</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>Governing law:</b>	<p>The Covered Bonds (other than the A\$ Registered Covered Bonds) issued pursuant to this Prospectus will be governed by, and construed in accordance with, English law.</p> <p>The Australian Deed Poll and the A\$ Registered Covered Bonds issued pursuant to this Prospectus are governed by, and will be construed in accordance with, the laws applying in the State of New South Wales, Australia.</p>
<b>Selling and Transfer Restrictions:</b>	There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the U.S., the European Economic Area (including the UK, The Netherlands, the Republic of Italy, Germany and the Republic of France), Australia and Japan. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See <i>Subscription and Sale and Transfer and Selling Restrictions</i> and <i>ERISA Considerations</i> .
<b>Risk factors:</b>	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 and confirms that the risks that are stated to apply to “the Group” below apply also to the Issuer. All 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. Factors which the Issuer and the LLP believe may be material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme in relation to the Group are also described below. In addition, risk factors which are specific to the Covered Bonds are also described below.*

*The Issuer and the LLP believe that the factors described below represent the principal risks inherent in investing in Covered Bonds issued under the Programme, but the inability of the Issuer or the LLP to pay interest, principal or other amounts on or in connection with any Covered Bonds may occur for other reasons and neither the Issuer nor the LLP represents that the statements below regarding the risks of holding any Covered Bonds are exhaustive. Prospective investors should consider carefully the risks and uncertainties described below, together with all other information contained in this Prospectus and the information incorporated by reference herein before making any investment decision.*

*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.*

### **Risk Factors relating to the Issuer and the Group**

*Risks identified below may materially adversely impact the Group entities undertaking roles under the Programme and/or may impact or relate to the businesses or products of such entities including businesses and products directly relevant to the Programme, for example, the business of origination of mortgage Loans by the Seller or of management and servicing of such Loans by the Servicer.*

#### **1 Credit Related Risks**

- 1.1 The Group’s businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the Group’s balance sheet.*

The Group has exposures (including, but not limited to, lending, undrawn commitments, derivative, equity, contingent, bonds, securities and/or settlement risks) to many different products, counterparties, obligors and other contractual relationships and the credit quality of its exposures can have a significant impact on the Group’s earnings. Credit risk exposures are categorised as either “retail” (including small and medium-sized enterprises (SME)), or “corporate” (including medium and large corporates, banks, financial institutions and sovereigns). This reflects the risks inherent in the Group’s lending and lending-related activities. Adverse changes in the credit quality of the Group’s UK and/or international borrowers and counterparties or collateral held in support of exposures, or in their behaviour or businesses, may reduce the value of the Group’s assets and materially increase the Group’s write-downs and allowances for impairment losses. Credit risk can be affected by a range of factors outside the Group’s control, which include but are not limited to an adverse economic environment (in the UK and/or in countries where the Group and/or its customers/counterparties do and do not operate, such as any adverse economic effects that could occur in connection with the UK’s exit from the EU), reduced UK consumer and/or government spending (in light of the Group’s concentration in the UK), cuts to benefits, a slower pace of global economic growth leading to constraints on liquidity (given the possibility of adverse global economic developments and potential market volatility), changes in the credit rating of individual counterparties (including sovereigns), the debt levels of individual contractual counterparties and the economic environment in which they operate, increased unemployment, reduced asset values, increased personal or corporate insolvency levels, adverse sector concerns, falling stock and bond/other financial markets, reduced corporate profits, over-indebtedness (including sovereigns), changes (and the timing, quantum and pace of these changes) in interest rates (including the use of zero or negative interest rates), and any subsequent impact on pension liabilities (particularly given changing longevity rates), volatility of oil and commodity prices, changes in foreign exchange rates, higher tenant defaults, counterparty challenges to the interpretation or validity of contractual arrangements, an increase in credit spreads, changes to insolvency regimes, both in the UK

and/or in other jurisdictions where the Group may seek to pursue recovery, making it harder to enforce against counterparties, the impact of technological disruption or cyber-crime, changes in consumer and customer demands and requirements, negative reputational impact or direct campaigns which adversely impact customers, industries or sectors, and any external factors of a political, legislative, environmental or regulatory nature, including for example, rising “living wage” requirements, changes in accounting rules and changes to tax legislation and rates.

The UK’s expected exit from the EU has heightened the probability of some or all of these events happening and adds further uncertainty to counterparty credit risk and the Group’s financial condition. Key related risks which may impact the Group’s business and/or the Group’s clients’ businesses include, but are not limited to: reduced consumer spending, dampened consumer confidence, weaker Sterling, volatility in financial markets, a downgrade of the UK credit rating, inflation risk, prolonged low (including zero or negative interest rates) or rising interest rates, impact on European sovereigns and counterparties, loss and/or postponement of foreign direct investment and domestic direct investment, political uncertainty, delays or increased costs in the movement of goods and/or services, potential wider European political instability, uncertainty around trade negotiations and/or the UK’s ability to retain access to the single market, financial services passporting and free movement and cost of labour, relocation of companies and institutions away from the UK, and the withdrawal and/or reduction of EU funding. For more detail on the EU referendum decision see “*Business and Economic Risks — Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK’s membership of the European Union could adversely impact the Group’s business, results of operations, financial condition and prospects*” below. For further information on general macro-economic risks affecting the Group in the UK and the EU see “*Business and Economic Risks — The Group’s businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK, the U.S., the Eurozone, Asia and globally, and any resulting instability of financial markets or banking systems*” below.

There are many other factors that could impact credit risk including fraud, sustainability of client business models, industrial and strike action, war and acts of terrorism, climate change, natural disasters and flooding.

The Group has credit exposure in the UK and, to a lesser extent, internationally. The Group’s credit exposure includes residential mortgage lending (in the UK and, to a lesser extent, the Netherlands) and commercial real estate lending, including commercial real estate lending secured against secondary and tertiary commercial and residential non-prime assets in the UK. The Group’s retail customer portfolios will remain strongly linked to the UK economic environment, with house price deterioration, unemployment increases, inflationary pressures, consumer over-indebtedness and prolonged low or rising interest rates among the factors that may impact secured and unsecured retail credit exposures. Deterioration in used vehicle prices, including as a result of changing consumer demand, could result in increased provisions and/or losses and/or accelerated depreciation charges. The Group also has significant credit exposure to certain individual counterparties in higher risk and cyclical asset classes and sectors (such as manufacturing, commercial real estate, leveraged lending, oil and gas and related sectors, commodities trading, automotive and related sectors, construction, consumer-related sectors (such as retail), housebuilders and outsourcing services) and weakened geographic markets and to counterparties whose businesses may be impacted by material unforeseen events. In addition, the Group has concentrated country exposure in the UK and within certain industry sectors, namely real estate and real estate-related sectors. Certain industry sectors have been adversely impacted by recent global economic events, volatility and sector-specific issues; for example, the oil and gas and related sectors, commodities trading, manufacturing (including auto manufacturers) and retail. Adverse developments in these sectors increases the risk of default by the Group’s customers in these sectors.

In recent years, a number of factors, such as Eurozone instability (including the risk of economic stagnation/deflation in the Eurozone or of one or more members leaving the Eurozone), the deterioration of capital market conditions, a slower pace of global economic growth (given slowdown in economic growth across China and emerging markets and other macro-economic issues) and measures adopted by the governments of individual countries, have reduced and could further reduce households’ disposable income and businesses’ profitability. In the UK, any weakening in Sterling has the potential to squeeze households’ real incomes by pushing up inflation. This in turn could also have a negative impact on customers’ ability to honour their obligations, which in turn would result in deterioration of the Group’s credit quality. If political conditions or uncertainty, result in a prolonged period of economic stagnation, or a slowdown in the rate of economic recovery, or there is a broader

economic slowdown, it may lead to further weakening of counterparty credit quality and subsequent higher impairment charges or fair value reductions in the Group's lending and contingent equity and derivative portfolios. This could have a material adverse effect on the Group's results of operations, financial condition or prospects.

The possibility of economic stagnation in the EU or the risk of further members seeking to leave the EU, or the risk of a Eurozone member seeking to leave the Eurozone, could impact the UK's own economic recovery, given the extensive trade and financial links between the UK and the Eurozone/EU and in turn, this could impact upon the Group's performance. The Group has credit exposure to SMEs and corporates, financial institutions and securities which may have material direct and indirect exposures in the Eurozone countries. Any default on the sovereign debt of these countries and the resulting impact on other Eurozone countries, including the potential that one or more countries could leave the Eurozone, could have a material adverse effect on the Group's business.

At present, default rates are partly cushioned by low rates of interest which have helped affordability and debt serviceability; however, the risk remains of increased default rates as interest rates rise. The timing, quantum and pace of any change in interest rates is a key risk factor for the Group's default rates with expectations on the timing and quantum of any changes set by the Bank of England and also by the relevant central bank when lending in a foreign currency.

All lending decisions, and decisions related to other exposures (including, but not limited to, undrawn commitments, derivative, equity, contingent and/or settlement risks), are dependent on the Group's assessment of each customer's ability to repay and the value of any underlying security. There is an inherent risk that the Group has incorrectly assessed the credit quality and/or the ability or willingness of borrowers to repay, possibly as a result of incomplete or inaccurate disclosure by those borrowers or as a result of the inherent uncertainty that is involved in the exercise of constructing and using models to estimate the risk of lending to counterparties. The Group estimates and establishes reserves for credit risks and potential credit losses inherent in its credit exposure. This process, which is critical to the Group's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how macro-economic conditions might impair the ability of borrowers to repay their loans. As is the case with any such assessments, there is always a risk that the Group will fail to adequately identify the relevant factors or that it will fail to estimate accurately the impact of these identified factors. The introduction of the impairment requirements of IFRS 9 – Financial Instruments (**IFRS 9**), an international accounting standard, on 1 January 2018 resulted in higher impairment loss allowances. As a result of IFRS 9, impairment losses are recognised earlier, on a more forward looking basis and on a broader scope of financial instruments than was the case under IAS 39. Under IFRS 9, the measurement of impairments involves increased complexity and judgement and impairment charges tend to be more volatile and could adversely impact the Group's results of operations, financial condition or prospects. See "*Other Risks — The Group's financial statements are based, in part, on assumptions and estimates*" below.

**1.2** *Concentration of credit and market risk could increase the Group's potential for significant losses including in an adverse market/environment.*

The Group has exposure to concentration risk where its business activities focus particularly on a single obligor or a similar type of customer (borrower, sovereign, financial institution or central counterparty), product, industrial sector or geographic location, including the UK.

The Group has significant exposure to UK residential mortgages and consumer lending. As detailed in "*Credit Related Risks — The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the Group's balance sheet*" above, the Group's UK mortgage and consumer lending portfolios remain strongly linked to the UK economy with any deterioration in the UK's economic environment having the potential to adversely affect the credit quality of such portfolios. Any decreases in property values may reduce the collateral values against the mortgage portfolios, which could hinder recovery values in default situations, leading to higher impairment charges.

Additionally, the Group has significant sector concentrations (primarily in gilts, real estate and real estate-related lending, automotive and related sectors and to a lesser extent, oil and gas and related sectors, manufacturing, agriculture and leveraged lending), as well as international credit exposures.

The Group has significant real estate and real estate-related exposure, including secondary and tertiary non-prime assets, meaning that decreases in residential or commercial property values and/or increases

in tenant defaults are likely to lead to higher impairment charges, which could materially affect the Group's results of operations, financial condition or prospects.

The Group's corporate lending portfolio also contains substantial exposure to large and mid-sized, public and private companies. Exposures to sectors that have experienced cyclical weakness in recent years, coupled with a historic strategy of taking large single name concentrations to non-listed companies and entrepreneurs, and taking exposure at various levels of the capital structure, may give rise to (albeit reducing) single name and risk capital exposure. Whilst expectation of default for these exposures is appropriately provided for within the Group's base case assumptions, they remain vulnerable to downside risks. As in the UK, the Group's lending business overseas is also 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.

The Group's efforts to continue to manage 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, any 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 (including underwrites), 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 materially adversely affect the Group's results of operations, financial condition or prospects.

The Group's corporate portfolios are also susceptible to "fallen angel" risk, that is, the probability of significant default increases following material unexpected events, resulting in the potential for large losses. These types of events can occur from time to time, and may include for example, major fraud, cyber-crime, poor corporate governance, high profile incidents and collapse in specific sectors or products, all of which are very difficult to forecast, and could adversely impact the Group's results of operations, financial condition or prospects.

**1.3** *The Group may be required to record credit value adjustments, funding value adjustments and debit value adjustments on its derivative portfolio, which could have a material adverse effect on the Group's results of operations, financial condition or prospects.*

The Group continually seeks to limit and manage counterparty credit risk exposure to market counterparties. Credit value adjustment (CVA) and funding value adjustment (FVA) reserves are held against uncollateralised derivative exposures and a risk management framework is in place to mitigate reserve value changes. CVA is an expected loss calculation that incorporates current market factors including counterparty credit spreads. FVA reserves are held to capitalise the cost of funding uncollateralised derivative exposures. The Group also calculates a debit value adjustment to reflect own credit spread risk as part of the fair value of derivative liabilities. The Group uses several credit risk mitigation techniques to limit counterparty credit risk exposure including netting agreements, collateral agreements, credit default swaps and other forms of credit enhancement where possible. However, deterioration in the creditworthiness of financial counterparties, or large adverse financial market movements, could impact the size of CVA and FVA reserves and result in a material charge to the Group's profit and loss account.

## **2 Conduct Risks**

***The Group is exposed to the risk of customer detriment due to poor design, distribution and execution of products and services or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure and financial and reputational loss.***

The Group is exposed to various forms of conduct risk in its operations. Such risks are inherent in banking services. These include business and strategic planning that does not sufficiently consider customer need (leading to products being offered beyond target markets and mis-selling of financial products), ineffective management and monitoring of products and their distribution (which could result in customers receiving unfair outcomes), customer communications that are unclear, unfair, misleading or untimely (which could impact customer decision-making and result in customers

receiving unfair outcomes), a culture that is not sufficiently customer-centric (potentially driving improper decision-making and unfair outcomes for customers), outsourcing of customer service and product delivery via third-parties that do not have the same level of control, oversight and culture as the Group (which could result in potentially unfair or inconsistent customer outcomes), the possibility of alleged mis-selling of financial products (which could require amendments to sales processes, withdrawal of products or the provision of restitution to affected customers, all of which may require additional provisions in the Group's financial accounts), ineffective management of customer complaints or claims (which could result in customers receiving unfair outcomes), ineffective processes or procedures to support customers, including those in potentially vulnerable circumstances (which could result in customers receiving unfair outcomes or treatments which do not support their needs), and poor governance of colleagues' incentives and rewards and approval of schemes which drive unfair customer outcomes. Ineffective management and oversight of legacy conduct issues can also result in customers who are undergoing remediation being unfairly treated and therefore further rectification being required. The Group is also exposed to the risk of engaging in, or failing to manage, conduct which could constitute market abuse, undermine the integrity of a market in which it is active, distort competition or create conflicts of interest. Each of these risks can lead to regulatory censure, reputational damage, regulatory intervention/enforcement, financial loss for the Group and/or might have a material adverse effect on the Group's results of operations, financial condition or prospects.

### 3 Regulatory and Legal Risks

#### 3.1 *The Group and its businesses are subject to substantial regulation and oversight. Adverse legal or regulatory developments could have a significant material adverse effect on the Group's business, results of operations, financial condition or prospects.*

The Group and its businesses are subject to legislation, regulation, court proceedings, policies and voluntary codes of practice including the effects of any changes in these or the interpretation of them in the UK, the EU and the other markets in which the Group operates. The Group is therefore subject to associated legal and regulatory risks, including risk in connection with legal and regulatory actions and market reviews. Depending on the specific nature of the requirements and how they are enforced, they could have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements and ability to enforce contractual obligations. See also "*Business and Economic Risks — Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects*" below.

These laws and regulations include (i) increased regulatory oversight, particularly in respect of conduct issues; (ii) prudential regulatory developments, including ring-fencing; and (iii) increased legislative requirements, including:

- the Competition and Market Authority Open Banking programme which was implemented in the UK in 2018;
- the Second Payment Services Directive (**PSD2**), which entered into force in January 2016 and applied in the UK from January 2018. Finalised EU-wide technical standards on PSD2 are due to be implemented by September 2019 with the aim of protecting customers and their data by providing higher security standards for online payments; and
- the General Data Protection Regulation (**GDPR**), which entered into force in May 2018. The implementation of the GDPR introduced a number of significant changes.

Unfavourable developments across any of these areas could materially affect the Group's ability to maintain appropriate liquidity, increase its funding costs, constrain the operation of its business and/or have a material adverse effect on the Group's business, results of operations and financial condition. Areas where these changes could have an adverse effect on the Group include, but are not limited to:

- (i) general changes in government, central bank or regulatory policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which the Group operates, any of which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (ii) external bodies applying or interpreting standards, laws, regulations or contracts differently to the Group;

- (iii) an uncertain and rapidly evolving prudential regulatory environment which could materially adversely affect the Group's ability to maintain liquidity and increase its funding costs;
- (iv) changes in competitive and pricing environments, including markets investigations, or one or more of the Group's regulators intervening to mandate the pricing of the Group's products, as a consumer protection measure;
- (v) one or more of the Group's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- (vi) further requirements relating to financial reporting, corporate governance, corporate structure and conduct of business and employee compensation;
- (vii) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- (viii) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing; and
- (ix) regulatory changes which influence business strategy, particularly the rate of growth of the business, or which impose conditions on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

For more detail on the changing prudential regulatory environment see "*Regulatory and Legal Risks — The Group faces risks associated with an uncertain and rapidly evolving international and national prudential, legal and regulatory environment*" below.

### 3.2 *The Group faces risks associated with an uncertain and rapidly evolving international and national prudential, legal and regulatory environment.*

The Group's borrowing costs and access to capital markets, as well as its ability to lend or carry out certain aspects of its business, could be affected by prudential regulatory developments, including (i) amendments to the FSMA introduced by the Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**) along with secondary legislation and PRA/FCA rules made under the Banking Reform Act; (ii) amendments to the EU legislation comprising the Capital Requirements Directive IV and the Capital Requirements Regulation (together, **CRD IV**); (iii) evolving European and global prudential and regulatory changes; (iv) regulatory changes in the U.S. and (v) the evolving regulatory and legal impacts of the UK's exit from the EU.

#### *Banking Reform Act*

The Banking Reform Act's measures contain provisions with respect to, amongst other things (i) ring-fencing domestic retail banking services of UK banks; and (ii) the implementation of the Senior Managers and Certification Regime (the **SMCR**).

#### *Ring-Fencing*

The Banking Reform Act, secondary legislation and PRA/FCA rules made under the FSMA have enacted amendments to the FSMA and the UK regulatory regime that require UK banking groups (such as the Group) with more than £25 billion (on a group-wide basis) of core deposits (defined as **ring-fenced bodies** or **RFBs**) to separate the retail banking activities of their UK banks - particularly deposit-taking and associated services – from certain prohibited forms of activity, including: (i) dealing in investments; (ii) incurring exposures to relevant financial institutions (which include, amongst others, credit institutions (other than RFBs), investment firms and alternative investment funds (subject to certain limited exceptions)); (iii) participating in an inter-bank payment system other than as a direct member (subject to certain limited exceptions); and (iv) having non-EEA branches or subsidiaries. RFBs are also subject to regulations governing how pension arrangements can be managed, following the implementation of ring-fencing.

Under the Banking Reform Act, the PRA and FCA established ring-fencing rules (the **Ring-fencing Rules**) requiring implementation of ring-fencing prior to 1 January 2019, with the deadline for changes to the Lloyds Banking Group's pension scheme being 1 January 2026.

The implementation of the Ring-fencing Rules has impacted on the Group's structure, governance arrangements, business and reporting models, operations, costs and financing arrangements. The Lloyds Banking Group implemented its ring-fencing programme, including the establishment of the

non ring-fenced bank, LBCM, and met the legal and regulatory requirements prior to 1 January 2019. As a predominantly UK retail and commercial bank, the impact on the Group was relatively limited, with minimal impact for the majority of the Group's retail and commercial customers.

Over the course of 2018, in order to comply with the ring-fencing legislation, certain businesses were transferred out of the Group to other parts of Lloyds Banking Group, by means of statutory or contractual transfers. This included the transfer of certain wholesale and international businesses to LBCM and the transfer of Scottish Widows Group and other insurance subsidiaries to Lloyds Banking Group plc.

Due to the Group's UK retail and commercial focus, the vast majority of the Group's business continued to be held in the Group (the ring-fenced bank) and as a result these transfers did not have a material impact on the financial strength of the Issuer.

From 1 January 2019, Lloyds Banking Group became subject to the expanded oversight powers granted to Her Majesty's Treasury (**HM Treasury**), the PRA and the FCA under the Banking Reform Act.

#### *Senior Managers and Certification Regime*

The SMCR came into force on 7 March 2016 and replaced the approved persons regime for deposit takers and other PRA designated firms. The SMCR comprises a number of elements, including the senior managers' regime, the certification regime and the conduct rules, which will be expanded to apply to solo-regulated firms in December 2019 by changes proposed by the Bank of England and the Financial Services Act 2016. The Group could be exposed to additional risk or loss if it is unable to comply with the requirements arising from the SMCR and its extension or if doing so imposes significant demands on the attention of management.

#### *Capital Requirements Regulation and Capital Requirements Directive*

The Group is subject to CRD IV which implemented changes approved by the Basel Committee on Banking Supervision (the **Basel Committee**) to the regulatory framework applicable to the Group, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions in Europe (such changes being commonly referred to as **Basel III**). Full implementation began from 1 January 2014, with some elements being phased in over a period of time, to be fully effective by 2024.

CRD IV includes a number of capital buffers to provide capital cushions in addition to minimum capital requirements to which the financial institutions may be subject.

From 1 January 2019, the Group (as the RFB sub-group) became subject to prudential requirements (including CRD IV). These requirements are in addition to the requirements that the Bank must meet under the existing prudential regime on an individual basis.

The CRD IV regime is expected to continue to evolve as a result of further changes agreed by EU legislators, binding regulatory technical standards and guidelines to be developed by the European Banking Authority (**EBA**) and changes to the way in which the PRA interprets and applies these requirements to UK financial institutions. The European Commission put forward significant draft proposals to amend CRD IV in November 2016 (with the amended Capital Requirements Regulation to be known as **CRR 2** and the amended Capital Requirements Directive to be known as **CRD V**). The proposals include a binding leverage ratio, a binding net stable funding ratio and more risk-sensitive capital requirements. Inter-institutional negotiations (trilogues) commenced on CRD V and CRR 2 in July 2018, following agreement by the Council of the EU on its general approach and the European Parliament on its negotiating position. Political agreement on a number of key issues was reached in trilogues in November 2018 and the Council announced its endorsement of the agreement in December 2018. In February 2019, the Council of the EU published a press release announcing that its Permanent Representatives Committee had endorsed the texts of CRR2 and CRD V. In April 2019, the European Parliament approved the proposals and publication in the Official Journal is anticipated by mid-2019. CRR 2 and CRD V are two of the pieces of legislation included in the Financial Services (Implementation of Legislation) Bill which received its first reading in the House of Lords in November 2018. The Bill provides the UK Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets.

In addition, the Basel Committee published a package of further revisions to Basel III in December 2017, including changes to: standardised approach for credit risk; internal ratings based approaches for credit risk; the credit valuation adjustment risk framework; the operational risk framework; the leverage ratio framework; and a revised output floor. Although Basel III does not directly apply to the Group, or to other firms, the Basel Committee expects these changes to be implemented by regulators from January 2022, with transitional arrangements for the output floor up to January 2027. Until such rules are translated into draft European and UK legislation, it would be premature to estimate the full impact or timelines.

Lloyds Banking Group will continue to monitor the ongoing changes to the global, EU and UK prudential framework which may affect the Group's financial position or require the strengthening of regulatory requirements.

#### *European Market Infrastructure Regulation*

European Regulation 648/2012, known as the European Market Infrastructure Regulation (**EMIR**), introduced new requirements to improve transparency and reduce the risks associated with the derivatives market. EMIR came into force on 16 August 2012 and when it fully comes into effect, EMIR will require entities that enter into any form of derivative contract, including interest rate, foreign exchange, equity, credit and commodity derivatives, to: (i) report every derivative contract entered into to a trade repository; (ii) implement new risk management standards (including operational processes and margining) for all bilateral over the counter (**OTC**) derivative trades that are not cleared by a central counterparty; and (iii) clear, through a central counterparty, OTC derivatives that are subject to a mandatory clearing obligation. The first clearing obligations for certain interest rate derivatives have applied from June 2016. Variation margin requirements for uncleared trades came into effect on 4 February 2017 for market participants with a sufficiently large derivative trading volume and on 1 March 2017 for all other counterparties, including the Group. Certain products are exempt from variation margin requirements at this time. The Group does not expect initial margin requirements to apply to it until September 2019. It is expected that there will be additional costs and limitations on the Group's business resulting from these requirements.

It is difficult to predict how and in what final form many of the regulatory changes described herein will be implemented and what financial obligations may be imposed in relation thereto. While the Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes, the Group could be exposed to additional risk of loss if it is unable to comply with the requirements arising from these regulations or if doing so imposes significant demands on the attention of management. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Group's operations, business prospects, structure, costs and/or capital requirements including changes to how the Group and its businesses are capitalised and funded, distribution of capital, reducing weighted assets, modifying legal entity structure and changing the Group's business mix to strengthen the Group's capital position.

### *3.3 Lloyds Banking Group and its UK subsidiaries may become subject to the provisions of the Banking Act 2009, as amended, which could have an adverse impact on the Group's business.*

Under the Banking Act 2009, as amended, (the **Banking Act**), substantial powers have been granted to HM Treasury, the Bank of England and the PRA and FCA (together, the **Authorities**) as part of the special resolution regime (the **SRR**). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part 4A of the FSMA if they are failing or are likely to fail to satisfy certain threshold conditions (within the meaning of Section 55B of the FSMA). The SRR consists of five 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" established and wholly owned by the Bank of England; (iii) transfer all or part of the relevant entity or "bridge bank" to an asset management vehicle; (iv) making of one or more resolution instruments by the Bank of England; and (v) 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 SRR also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances.



In addition, the Group's costs of doing business may increase by amendments made to the Banking Act in relation to deposits covered by the UK Financial Services Compensation Scheme (the **FSCS**). Lloyds Banking Group contributes to compensation schemes such as the FSCS in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these costs are likely to be necessary in the future. 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 but may be significant and may have a material effect on the Group's business, results of operations or financial condition.

The final text of the EU Directive 2014/59/EU establishing an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**), entered into force on 2 July 2014 and in the UK, the Banking Reform Act made provision for certain aspects of the "bail-in" power. Under the "bail-in" power, prior to insolvency proceedings, regulators have the power to impose losses on holders of regulatory capital securities, senior bondholders and/or other creditors while potentially leaving untouched certain other classes of excluded creditors; generally losses are to be taken in accordance with the priority of claims under normal insolvency proceedings. While LBG is currently the resolution entity for Lloyds Banking Group pursuant to the Bank of England's "single point of entry" resolution model, bail-in is capable of being applied to all of the Issuer's unsecured senior and subordinated debt instruments with a remaining maturity of greater than seven days. The stated aim of the BRRD is to provide authorities designated by EU member states to apply the resolution tools and exercise the resolution powers set forth in the BRRD (the "**resolution authorities**") with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers granted to resolution authorities under the BRRD include, but are not limited to: (i) a "write-down and conversion power" relating to Tier 1 and Tier 2 capital instruments and (ii) a "bail-in" power relating to eligible liabilities (including the capital instruments and senior unsecured debt securities issued by the Issuer). Such powers give resolution authorities the ability to write-down or write-off all or a portion of the claims of certain unsecured creditors of a failing institution or group and/or to convert certain debt claims into another security, including ordinary shares of the surviving group entity, if any. Such resulting ordinary shares may be subject to severe dilution, transfer for no consideration, write-down or write-off. Such powers were implemented in the UK with effect from 1 January 2015. The Minimum Requirement for Own Funds and Eligible Liabilities (**MREL**), which is being implemented in the EU and the UK, will apply to EU and UK financial institutions and cover capital and debt instruments that are capable of being written-down or converted to equity in order to prevent a financial institution from failing in a crisis. The Bank of England has set an interim MREL compliance date of 1 January 2020 and a final MREL conformance date of 1 January 2022.

The conditions for use of the "bail-in" power are, in summary, that (i) the regulator determines that the bank is failing or likely to fail; (ii) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the bank to avoid the failure of the bank; (iii) the relevant UK resolution authority determines that it is necessary having regard to the public interest to exercise the "bail-in" power in the advancement of one of the statutory objectives of resolution; and (iv) one or more of those objectives would not be met to the same extent by the winding up of the bank. The Banking Act and secondary legislation made thereunder provides certain other limited safeguards for creditors in specific circumstances. The "no creditor worse off" safeguard contained in the Banking Act may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not also used; holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation. The exercise of mandatory write-down and conversion power under the Banking Act or any suggestion of such exercise could, therefore, materially adversely affect the rights of the holders of equity and debt securities and the price or value of their investment and/or the ability of members of Lloyds Banking Group to satisfy their respective obligations under such debt securities.

Certain amendments to the BRRD will be made as a result of proposals originally published by the European Commission on 23 November 2016 (such proposals being known as **BRRD 2**), including extending the "write-down and conversion power" to cover certain subordinated non-own funds eligible liabilities of entities in a banking group other than the resolution entity. Trilogues commenced on BRRD 2 in July 2018, following agreement by the Council of the EU on its general approach and the European Parliament on its negotiating position. Political agreement on a number of key issues was

reached in trilogues in November 2018 and the Council announced its endorsement of the agreement in December 2018. In February 2019, the Council of the EU published a press release announcing that its Permanent Representatives Committee had endorsed the texts of CRR2 and CRD V. In April 2019, the European Parliament approved the proposals and publication in the Official Journal is anticipated by mid-2019. BRRD 2 is one piece of legislation included in the Financial Services (Implementation of Legislation) Bill which received its first reading in the House of Lords in November 2018. The Bill provides the UK Government with the power to choose to implement only those EU files, or parts of those files, which are both appropriate and beneficial for the UK and adjust and improve the legislation as it is brought into UK law to ensure that it works better for UK markets.

In addition to the provisions described above, it is possible that the exercise of other powers under the Banking Act to resolve failing banks in the UK, which give the Authorities powers to amend the terms of contracts (for example, varying the maturity of a debt instrument) and to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers, could have a material adverse effect on the rights of holders of the equity and debt securities issued by the Group, including through a material adverse effect on the price of such securities. The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for HM Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

Although the “bail-in” powers are not intended to apply to secured debt (such as the rights of Covered Bondholders in respect of the Covered Bond Guarantee), the determination that securities and other obligations issued by the Bank will be subject to write-down, conversion or “bail-in” is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Group’s control. This determination will also be made by the relevant UK resolution authority and there may be many factors, including factors not directly related to the Bank or the Group, which could result in such a determination. Because of this inherent uncertainty and given that both BRRD and the relevant provisions of the Banking Act remain untested in practice, it will be difficult to predict when, if at all, the exercise of a “bail-in” power may occur which would result in a principal write-off or conversion to other securities, including the ordinary shares of Lloyds Banking Group. Moreover, as the criteria that the relevant UK resolution authority will be obliged to consider in exercising any “bail-in” power provide it with considerable discretion, holders of the securities issued by the Bank may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Bank and the securities issued by the Bank.

Potential investors in the securities issued by the Issuer should consider the risk that a holder may lose some or all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon. The BRRD and applicable state aid rules provide that, other than in certain limited circumstances set out in the BRRD, extraordinary governmental financial support will only be available to the Bank as a last resort once the write-down and conversion powers and resolution tools referred to above have been exploited to the maximum extent possible.

Holders of the Issuer’s securities may have limited rights or no rights to challenge any decision of the relevant UK resolution authority to exercise the UK “bail-in” power or to have that decision reviewed by a judicial or administrative process or otherwise. Accordingly, trading behaviour in respect of such securities is not necessarily expected to follow the trading behaviour associated with other types of securities that are not subject to such recovery and resolution powers. Potential investors in securities issued by the Bank should consider the risk that a holder of such securities may lose all of its investment, including (in the case of debt securities) the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or if that senior unsecured debt instrument may be converted into ordinary shares of LBG or the Issuer. Further, the introduction or amendment of such recovery and resolution powers, and/or any implication or anticipation that they may be used, may have a significant adverse effect on the market price of such securities, even if such powers are not used.

### *3.4 The Group faces risks associated with its compliance with a wide range of laws and regulations.*

The Group is exposed to various forms of legal and regulatory risk, including:

- (i) certain aspects of the Group's activities and business may be determined by the relevant authorities, the Financial Ombudsman Service (the **FOS**) or the courts, to have not been conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- (ii) 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;
- (iii) risks relating to compliance with, or enforcement actions in respect of, existing and/or new regulatory or reporting requirements, including as a result of a change in focus of regulation or a transfer of responsibility for regulating certain aspects of the Group's activities and business to other regulatory bodies;
- (iv) contractual and other obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;
- (v) the intellectual property of the Group (such as trade names) may not be adequately protected;
- (vi) the Group may be liable for damages to third parties harmed by the conduct of its business;
- (vii) the risk of regulatory proceedings, enforcement actions and/or private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions;
- (viii) risks related to court or UK Government activity leading to a requirement to equalise pension benefits for the effect of Guaranteed Minimum Pensions. It is possible that any such requirement could increase liabilities in the Group's defined benefit pension schemes; and
- (ix) the continued uncertainty around the impact of the UK's expected exit from the EU on the existing regulatory and legal framework that the Group operates within, as well as the future regulatory and legal landscape. For more detail on the EU referendum decision see "*Business and Economic Risks — Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects*" below.

Regulatory and legal actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the Group may be subject, including as a result of regulatory actions, to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation or otherwise, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the Group's business, all of which can have a negative effect on the Group's reputation. Any of these risks could have an adverse impact on the Group's operations, financial condition, results of operations or prospects and the confidence of customers in the Group, as well as taking a significant amount of management time and resources away from the implementation of the Group's strategy.

The Group's operations also expose it to various forms of reputational impacts. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, the level of direct and indirect government support, actual or perceived practices in the banking and financial industry, or allegations of misconduct. Negative public opinion may adversely affect the Group's ability to keep and attract customers, which may result in a material adverse effect on the Group's financial condition, results of operations or prospects. Negative public opinion referenced in the media as "lack of trust" in banking can be impacted by actions of competitors across the industry as well as actions by the Group. Gaining the trust of customers and the public is a key objective of the Group.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses

even in situations where the Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could materially affect the Group, both financially and reputationally.

*3.5 The Group faces risks associated with the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the media and politicians.*

The Group's operations, in particular related to its treatment of customers, are subject to supervision by the FCA and other regulatory authorities. In recent periods, the UK banking industry has been subject to heightened attention from these regulatory authorities, as well as the news media and the UK Government.

The Group has historically been subject to the Markets in Financial Instruments Directive (**MiFID**) and, since 3 January 2018, the Group is subject to a revised directive (**MiFID II**) and a new regulation (Markets in Financial Instruments Regulation or **MiFIR**), which were implemented across the divisions of the Group. MiFID, MiFID II and MiFIR regulate the provision of "investment services and activities" in relation to a range of customer-related areas, including customer classification, conflicts of interest, client order handling, investment research and financial analysis, suitability and appropriateness, transparency obligations and transaction reporting. If the Group incurs substantial expenses associated with ongoing compliance, this may impose significant demands on the attention of management that result in other areas of the Group's business not receiving sufficient management attention, or if particular products, services or practices are banned, the Group's results of operations could be materially adversely affected.

The Group is also subject to European regulation on customer deposits. On 12 June 2014, the Deposit Guarantee Schemes Directive 2014/49/EU (the **recast DGSD**) was published in the Official Journal of the EU, which replaced Directive 94/19/EC on Deposit Guarantee Schemes. As required by the recast DGSD, the UK introduced a compliant deposit guarantee scheme (**DGS**) that:

- gives a preference in liquidation or resolution to deposits made by retail customers and SMEs over other senior creditors (including the holders of the Covered Bonds issued by the Issuer);
- sets out the rights of eligible depositors (typically retail customers) to compensation, and repayment circumstances and procedures by the DGS, covering the unavailability of any deposit, up to aggregate deposits of €100,000;
- places obligations on credit institutions, in particular, requirements to provide specified information to depositors (and potential depositors) on their rights to compensation under the DGS; and
- sets out provisions on the financing of DGSs, including target funding levels and contribution amounts by credit institutions.

In addition, the GDPR requires the Group to afford greater transparency and control to customers over how their personal data is used, stored and shared which may limit the extent to which customer data can be used to support the Group using its strategic objectives. Failure to comply may erode customer trust and result in regulatory fines.

*3.6 The financial impact of legal proceedings and regulatory risks might be material but is difficult to quantify. Amounts eventually paid may materially exceed the amount of provisions set aside to cover such risks, or existing provisions may need to be materially increased in response to changing circumstances, as has been the case in respect of payment protection insurance (PPI) redress payments.*

Where provisions have already been taken in published financial statements of the Group or results announcements for ongoing legal or regulatory matters, these have been recognised, in accordance with IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets"), as the best estimate of the expenditure required to settle the obligation as at the reporting date. Such estimates are inherently uncertain and it is possible that the eventual outcomes may differ materially from current estimates, resulting in future increases or decreases to the required provisions, or actual losses that exceed or fall short of the provisions taken.

Excluding MBNA Limited (**MBNA**), the Group increased provisions for expected PPI costs by a further £0.7 billion in 2018. The increase in 2018 related to a number of factors including higher than expected complaint volumes and associated administration costs, an increase in average redress per

complaint, additional operational costs to deal with potential complaint volatility and continued improvements in data interrogation and the Group's ability to identify valid complaints.

This brings the total amount provided for at the end of 2018 to £19.4 billion, of which £1.3 billion remains unutilised relating to complaints and associated administration costs.

With regard to MBNA, as announced in December 2016, the Group's exposure is capped at £240 million and is already provided for through an indemnity received from Bank of America. MBNA increased its PPI provision by £100 million in the year ended 31 December 2018 but the Group's exposure continues to remain capped at £240 million under this indemnity.

Provisions have not been taken where no obligation (as defined in IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets")) has been established, whether associated with a known or potential future litigation or regulatory matter. Accordingly, an adverse decision in any such matters could result in significant losses to the Group which have not been provided for. Such losses would have an adverse impact on the Group's financial condition and operations.

In November 2014, the UK Supreme Court ruled in *Plevin v Paragon Personal Finance Limited* [2014] UKSC 61 (**Plevin**) that failure to disclose to a customer a "high" commission payment on a single premium PPI policy sold with a consumer credit agreement created an unfair relationship between the lender and the borrower under s140 of the Consumer Credit Act 1974. It did not define a tipping point above which commission was deemed "high". The disclosure of commission was not a requirement of the FSA's (now FCA's) Insurance: Conduct of Business sourcebook rules for the sale of general insurance (including PPI). Permission to appeal the redress outcome in the Plevin case was refused by the Court of Appeal in July 2015 and by the President of the Family Division in November 2015.

In November 2015 and August 2016, the FCA consulted on the introduction of a two year industry deadline by which consumers would need to make their PPI complaints or lose their right to have them assessed, and proposed rules and guidance about how firms should handle PPI complaints fairly in light of the Plevin judgment discussed above. On 2 March 2017, the FCA confirmed an industry deadline of 29 August 2019. The FCA's rules to address Plevin commenced on 29 August 2017. The industry deadline also applies to the handling of these complaints. It is anticipated that the upcoming industry deadline could encourage eligible consumers to bring their claims earlier than would have otherwise been expected in the absence of an industry deadline for having complaints assessed. The FCA's rules, issued on 2 March 2017, could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

## **4 Business and Economic Risks**

### **4.1 *The Group's businesses are subject to inherent and indirect risks arising from general macro-economic conditions in the UK, the U.S., the Eurozone, Asia and globally, and any resulting instability of financial markets or banking systems.***

The Group's businesses are subject to inherent and indirect risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the UK, where the Group's earnings are predominantly generated and the Group's operations are increasingly concentrated following the strategic reduction of its international presence. The Group may have credit exposure in countries outside the UK even if it does not have direct exposure or a presence in such countries. Any significant macro-economic deterioration in the UK and/or other economies could have a material adverse effect on the results of operations, financial condition or prospects of the Group, as could continued or increasing political uncertainty within the UK and other countries. The profitability of the Group's businesses could be affected by market factors such as the deterioration of UK economic growth significantly below long-term average levels, rising unemployment, reduced corporate profitability, reduced personal income levels (in real terms), inflationary pressures, including those arising from the Sterling's depreciation, reduced UK Government and/or consumer expenditure, changes in interest rates (and the timing, quantum and pace of those changes as well as the possibility of further reductions in interest rates, including zero or negative interest rates or of unexpected increases in interest rates which may have a detrimental effect on the Group's customers and their ability to service interest), increased corporate, SME or personal insolvency rates, borrowers' reduced ability to repay loans and increased tenant defaults which could cause prices of residential or commercial real estate or other asset prices to fall, thereby reducing the collateral value on many of the Group's assets, fluctuations in commodity prices, changes in foreign exchange rates; or a marked

deterioration in global economic growth reflecting the high levels of debt that have built up in some emerging economies, most notably China. These, in turn, could cause increased impairments and/or fair value adjustments.

In addition to the possibility of macro-economic deterioration, any increase in financial market instability including any increase in credit spreads, increase or reduction in interest rates, including negative interest rates, and general illiquidity within the markets that the Group uses for hedging or bond issuances may represent further risk to the Group's business. The outlook for global growth remains uncertain due to issues such as geopolitical tensions (including sanctions, tariffs and increased threats of trade disputes, continued instability in the Middle East and in the Korean Peninsula), the impact of economic policies of foreign governments, continued divergence in economic performance between countries within the Eurozone, and the slow-down of economic growth rates in both mature and emerging markets generally and China in particular. The Group has exposures in a number of overseas jurisdictions and is therefore subject to various risks relating to the stability of these financial markets. The global financial system has suffered considerable turbulence and uncertainty in recent years and, despite recent growth in the Eurozone and other advanced economies, the outlook for the global economy over the near to medium term remains uncertain. See also *"Business and Economic Risks — Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects"* below.

In the Eurozone, the pace of economic recovery, which has lagged behind that of other advanced countries following the global recession, has now passed its peak. High levels of private and public debt, continued weaknesses in the financial sector and reform fatigue remain a concern and the timing and pace of the European Central Bank's withdrawal of monetary stimulus, the unwinding of existing monetary stimulus from the European Central Bank's balance sheet and the timing and pace of any increase in interest rates could cause market volatility. In addition, increased political uncertainty in the Eurozone, and fragmentation risk in the EU and UK, could create financial instability and have a negative impact on the Eurozone and global economies. Any of these risks could weaken the UK's economic prospects, given the extensive economic and financial linkages between the UK and the Eurozone.

The uncertainty around the economic policies of foreign governments could create additional uncertainty for the global economic outlook. For example, in the U.S., whilst it is possible that the current administration's economic policies might have an adverse effect on U.S. and global growth as well as global trade prospects, it is also possible that expansionary policies could boost U.S. and international growth temporarily at a time of limited spare capacity resulting in higher U.S. inflation and interest rates which could in turn significantly impact global investor risk appetite and pricing expectations, sparking elevated financial market volatility and a tightening of financial conditions.

Concerns remain around the impact of increased tariffs on trade between the U.S. and other nations including China, Canada and the EU. The potential for escalation of trade disputes and any retaliatory actions taken may adversely impact the global economic outlook.

In addition, developing macro-economic uncertainty in emerging markets, in particular the high and growing level of debt in China and the risk of a sharp slowdown in Chinese economic growth, which may be exacerbated by attempts to de-risk its highly leveraged economy, or a devaluation of the Renminbi could pose threats to global economic recovery. External debt levels are higher now in emerging markets than before the global financial crisis, which could lead to higher levels of defaults and non-performing loans, in particular in an environment of rising interest rates. Financial markets may experience renewed periods of volatility, especially given the recent volatility in oil and other commodity prices impacting corporates and emerging markets dependent on the oil and gas sector, creating the potential for a return of contagion between countries and banking systems which may place new strains on funding markets.

The Group has credit exposure to SMEs and corporates, financial institutions, sovereigns and securities which may have material direct and indirect exposures in Eurozone countries, the U.S. and other countries.

Any default on the sovereign debt of a Eurozone country and the resulting impact on other Eurozone countries, including the potential that some countries could leave the Eurozone, could have a material adverse effect on the Group's business. The exit of any member state from the European Monetary Union (the **EMU**) could result in deterioration in the economic and financial environment in the UK

and the Eurozone that would materially affect the capital and the funding position of participants in the banking industry, including the Group. This could also give rise to operational disruptions to the Group's business.

Examples of indirect risks to the Group associated with the Eurozone which have been identified are adverse developments relating to: European banking groups with lending and other exposures to certain Eurozone countries, corporate customers with operations or significant trade in certain European jurisdictions, major travel operators and airlines known to operate in certain Eurozone countries, and international banks with custodian operations based in certain European locations. Adverse developments relating to these sectors, or banking groups could increase the risk of defaults and negatively impact the Group's business, results of operations or financial condition.

The effects on the UK, European and global economies of the exit of one or more EU member states from the EMU, or the redenomination of financial instruments from the euro to a different currency, are extremely uncertain and very difficult to predict and protect fully against in view of: (i) the potential for economic and financial instability in the Eurozone and possibly in the UK; (ii) the lasting impact on governments' financial positions of the global financial crisis; (iii) the uncertain legal position; and (iv) the fact that many of the risks related to the business are totally, or in part, outside the control of the Group. However, if any such events were to occur, they may result in: (a) significant market dislocation; (b) heightened counterparty risk; (c) an adverse effect on the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities; (d) an indirect risk of counterparty failure; or (e) further political uncertainty in the UK, any of which could have a material adverse effect on the results of operations, financial condition or prospects of the Group. Any adverse changes affecting the economies of the countries in which the Group has significant direct and indirect credit exposures, including those discussed above and any further deterioration in global macro-economic conditions, could have a material adverse effect on the Group's results of operations, financial condition or prospects.

**4.2** *Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects.*

On 23 June 2016, the UK held a referendum on the UK's continued membership of the EU. A majority of voters voted for the UK to leave the EU. The announcement of the referendum result caused significant volatility in the UK stock market and exchange rate fluctuations that resulted in a significant weakening of Sterling against the U.S. dollar, the Euro and other major currencies. The share prices of major UK banks and bank holding companies, including Lloyds Banking Group, suffered significant declines in market prices immediately following the result of the referendum and major credit rating agencies downgraded the UK's sovereign credit rating.

Under Article 50 of the Treaty on European Union (**Article 50**) once the exit process is triggered by the withdrawing member state, a two-year period of negotiation begins to determine the terms of the withdrawing member's exit from the EU with reference to the planned post-exit relationship, after which period its EU membership ceases unless the European Council, together with the withdrawing member, unanimously decides to extend this period.

Following the UK Government's decision to invoke Article 50 on 29 March 2017, the UK was due to exit the EU at 11 p.m. (London time) on 29 March 2019. This deadline has since been extended twice with a currently agreed deadline of 31 October 2019. The deadline could be further extended or a transitional arrangement put in place, which could be effective either on or before 31 October 2019, subject to agreement by all EU member states. Negotiations relating to the terms of the UK's relationship with the EU may extend for an unknown period which could create additional volatility in the markets and have an adverse impact on the Group's profitability. The timing of, and process for, such negotiations and the subsequent terms of the UK's future economic, trading and legal relationships with the EU are uncertain, and will be impacted by the stance the current UK government and the other EU Member States adopt. In addition, an unfavourable outcome of negotiations relating to the UK's exit from the EU or its future relationship with the EU is likely to create further volatility in the markets which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The UK general election held on 8 June 2017 resulted in a minority government. The UK political environment remains fragile, heightened by the EU exit negotiations.

The effects on the UK, European and global economies of the uncertainties arising from the results of the referendum and the process of the UK's exit from the EU are difficult to predict but may include economic and financial instability in the UK, Europe and the global economy and the other types of risks described in *"Business and Economic Risks - The Group's businesses are subject to inherent and indirect risks arising from general macroeconomic conditions in the UK, the U.S., the Eurozone, Asia and globally, and any resulting instability of financial markets or banking systems"* and *"Credit Related Risks – The Group's businesses are subject to inherent risks concerning borrower and counterparty credit quality which have affected and may adversely impact the recoverability and value of assets on the Group's balance sheet"* above.

Furthermore, any uncertainty in the UK arising from the UK leaving the EU could be exacerbated by the re-emergence of the possibility of a further Scottish independence referendum or any proposed differential arrangements for Northern Ireland when compared to the rest of the UK. This could cause further uncertainty and risks to the Group.

The longer term effects of the UK's expected exit from the EU are difficult to predict but could include further financial instability and slower economic growth, in the UK in particular, but also in Europe and the global economy. In the event of any substantial weakening in economic growth, the possible policy of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the Group's interest margins and adversely affect the Group's profitability and prospects. Furthermore, such market conditions may also result in an increase in the Group's pension deficit.

A challenging macroeconomic environment, reduced profitability and greater market uncertainty could negatively impact the Group's performance and potentially lead to credit ratings downgrades which could adversely impact the Group's ability to access funding and the cost of such funding. The Group's ability to access capital markets on acceptable terms and hence its ability to raise the amount of capital and funding required to meet its regulatory requirements and targets, including those relating to loss-absorbing instruments to be issued by the Group, could be affected.

The Group is subject to substantial EU-derived laws, regulation and oversight. There continues to be significant uncertainty as to the respective legal and regulatory environments in which the Group and its subsidiaries will operate when the UK is no longer a member of the EU. In particular, the Group and its counterparties may no longer be able to rely on the European passporting framework for financial services, which could result in the loss of customers and/or the requirement for the Group to apply for authorisation in multiple EU jurisdictions if it is to continue its business there, the costs, timing and viability of which are uncertain. This uncertainty, and any actions taken as a result of this uncertainty (such as corporate clients of the Group preferring to transact with European competitors or to relocate from the UK to the EU to avoid a loss of passporting rights), as well as new or amended legislation and regulation, may have a significant impact on the Group's operations, profitability and business model. For further information on the Group's regulatory and legal risks see **"Regulatory and Legal Risks"**.

4.3 *Any tightening of monetary policy in jurisdictions in which the Group operates could affect the financial condition of its customers, clients and counterparties, including governments and other financial institutions, which could in turn adversely affect the Group's results of operations.*

Quantitative easing measures implemented by major central banks, adopted alongside record low interest rates to support recovery from the global financial crisis, have arguably helped loosen financial conditions and reduce borrowing costs. These measures may have supported liquidity and valuations for asset classes that are vulnerable to rapid price corrections as financial conditions tighten, potentially causing losses to investors and increasing the risk of default on the Group's exposure to these sectors.

The U.S. Federal Reserve has been gradually increasing its policy interest rates since December 2015. The Bank of England raised UK interest rates from 0.25 per cent. to 0.5 per cent. in November 2017 and then to 0.75 per cent. in August 2018 and has signalled that scope remains for UK interest rates to rise further. Some other major central banks, such as the Bank of Canada, are also on a tightening cycle, but the withdrawal of accommodative policies in the Eurozone and in Japan is expected to be somewhat slower.

Although uncertainty remains about the timing of any increases by central banks, it is possible that any increase in interest rates may lead to increasing levels of defaults by the Group's customers. Monetary policy has been highly accommodative in recent years, further supported by the Bank of England and HM Treasury "Funding for Lending" scheme, the "Help to Buy" scheme, the "Term Funding Scheme"



and the purchase of corporate bonds in the UK, which have helped to support demand at a time of very pronounced fiscal tightening and balance sheet repair. Such a long period of stimulus has increased uncertainty over the impact of its reduction, including the possibility of a withdrawal of such programmes which could lead to a risk of higher borrowing costs in wholesale markets, generally weaker than expected growth, or even contracting gross domestic product (**GDP**), reduced business and consumer confidence, higher levels of unemployment or underemployment, adverse changes to levels of inflation and falling property prices in the markets in which the Group operates, and consequently to an increase in delinquency rates and default rates among its customers. Similar risks result from the low level of inflation in developed economies, which in Europe particularly could deteriorate into sustained deflation if policy measures prove ineffective and economic growth weakens. Reduced monetary stimulus and the actions and commercial soundness of other financial institutions have the potential to impact market liquidity. The adverse impact on the credit quality of the Group's customers and counterparties, coupled with a decline in collateral values, could lead to a reduction in recoverability and value of the Group's assets and higher levels of impairment allowances, which could have an adverse effect on the Group's operations, financial condition or prospects.

Accommodative credit conditions in some areas of the world since the global financial crisis have led to a further build-up of debt, with private sector corporate debt in emerging markets growing particularly quickly. Emerging market currency depreciation and rising U.S. interest rates could result in increasing difficulties in servicing this increased debt, especially debt that is denominated in U.S. dollars, possibly leading to debt defaults, which may negatively affect economic growth in emerging markets or globally.

*4.4 The Group's businesses are inherently subject to the risk of market fluctuations, which could have a material adverse effect on the results of operations, financial condition or prospects of the Group.*

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 the Group's business, pricing and hedging assumptions. Movements in these markets will continue to have a significant 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 defined benefit pension schemes of the Group. The schemes' main exposures are to real rate risk and credit spread risk. These risks arise from two main sources: the "AA" corporate bond liability discount rate and asset holdings.

Banking and trading activities that are undertaken by the Group are also subject to market movements, including interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, interbank margins over official rates, yield curves and spreads affect the interest rate margin realised between lending and borrowing costs. The potential for future volatility and margin changes remains. Competitive pressures on fixed rates or product terms in existing loans and deposits may restrict the Group in its ability to change interest rates applying to customers in response to changes in official and wholesale market rates. The Group has a structural hedge in place to stabilise the net interest margin. There is, however, a risk that in a low rate environment the Group will face margin compression as maturities are reinvested at prevailing market rates.

Changes in foreign exchange rates, including with respect to the U.S. dollar and the euro, affect the Group's financial position and/or forecasted earnings. Foreign exchange risk is actively managed by the Group within a low risk appetite, minimising the Group's exposure to exchange rate fluctuations. However, changes in foreign exchange rates could still result in a significant reduction in the profit of the Group.

*4.5 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, an adverse effect on the Group's results of operations, financial condition or prospects.*

The Group has exposures to securities, derivatives and other investments, including asset-backed securities, structured investments and private equity investments that are recorded by the Group at fair value. These may be subject to further negative fair value adjustments, particularly in view of the volatile global markets and challenging economic environment. Although credit value adjustments,

debit value adjustments and funding value adjustments are actively managed within the Group, in stressed market conditions adverse movements in these could result in a material charge to the Group's profit and loss account.

In volatile markets, hedging and other risk management strategies (including collateralisation and the purchase of credit default swaps) may not be as effective as they are in normal market conditions, due in part to the decreasing credit quality of hedge counterparties, and general illiquidity in the markets within which transactions are executed. 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 impairment charges.

In circumstances where fair values are determined using financial valuation models, the Group's valuation methodologies may 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. This is particularly relevant in light of uncertainty as to the strength of the global economic recovery and continuing downside risks and may be amplified during periods of market volatility and illiquidity. Any consequential impairments, write-downs or adjustments could have a material adverse effect on the Group's results of operations, capital ratios, financial condition or prospects.

The value ultimately realised by the Group for its securities and other investments may be lower than their 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 results of operations, financial condition or prospects. Material losses from the fair value of financial assets will also have an adverse impact on the Group's capital ratios.

4.6 *The Group's businesses are conducted in competitive environments, with increased competition scrutiny, 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 competitive, and management expects such competition to continue or intensify. This expectation is due to competitor behaviour, new entrants to the market (including a number of new retail banks as well as non-traditional financial services providers), consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors. The Group's financial performance and its ability to maintain existing or capture additional market share depends significantly upon the competitive environment and management's response thereto.

The competitive environment can be, and is, influenced by intervention by the UK Government competition authorities and/or European regulatory bodies and/or governments of other countries in which the Group operates, including in response to any perceived lack of competition within these markets. This may significantly impact the competitive position of the Group relative to its international competitors, which may be subject to different forms of government intervention.

The Competition and Markets Authority (the **CMA**) launched a full market investigation into competition in the SME banking and personal current account (**PCA**) markets in November 2014 and published its final report on 9 August 2016, followed by the Retail Banking Market Investigation Order 2017 on 2 February 2017. The key final remedies include: the introduction of "Open Banking", the publication of service quality information and customer information prompts. Recommendations were also made regarding improvements to current account switching, monthly maximum charges for PCA overdraft users, overdraft notifications and additional measures to assist small and medium-sized businesses in comparing the different products available. Compliance costs associated with the implementation of these remedies may be substantial and the implementation of these remedies could have a material adverse effect on the Group's competitive position.

The FCA launched its Strategic Review of Retail Banking Business Models in May 2017 to evaluate matters relating to competition and conduct. This review was intended to ensure that the FCA's regulatory approach remains fit for purpose. The FCA's Final Report into retail banking business models was published in December 2018 and proposed some further work in this area, including ongoing monitoring by the FCA. The outcomes of the review may have a significant impact on the Group's current business model.

Recent political debate on the reform of the UK banking markets, other current or potential competition reviews, the payment systems regulator and the FCA statutory objective to promote competition, along with concurrent competition powers, may lead to proposals or initiatives to reduce regulators' competition concerns, and for greater UK Government and regulatory scrutiny in the future that may impact the Group further. Additionally, the Group may be affected by changes in regulatory oversight following the pension review recommended by the Department for Work and Pensions. For more information on the Group's regulatory environment, see "*Lloyds Bank Group - Regulation - Other Bodies Impacting the Regulatory Regime*".

The internet and mobile technologies are changing customer behaviour and the competitive environment. There has been a steep rise in customer use of mobile banking over the last four years. The Group faces competition from established providers of financial services as well as from banking business developed by non-financial companies, including technology companies with strong brand recognition.

As a result of any restructuring or evolution in the market, there may emerge one or more new viable competitors in the UK banking market or a material strengthening of one or more of the Group's existing competitors in that market. Any of these factors or a combination thereof could result in a significant reduction in the profit of the Group.

*4.7 The Group is exposed to risks related to the uncertainty surrounding the integrity and continued existence of reference rates.*

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (**LIBOR**) and the Euro Interbank Offered Rate (**EURIBOR**), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (**Benchmarks**), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued.

At this time, it is not possible to predict the effect of any such reforms and changes, any establishment of alternative reference rates or any other reforms to these reference rates that may be enacted, including the potential or actual discontinuance of LIBOR publication and any transition away from LIBOR.

Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect a broad array of financial products, including any LIBOR-based or EURIBOR-based securities, loans and derivatives that are included in the Group's financial assets and liabilities, that use these reference rates and may impact the availability and cost of hedging instruments and borrowings. If any of these reference rates are no longer available, the Group may incur additional expenses in effecting the transition from such reference rates, and may be subject to disputes, which could have an adverse effect on the Group's results of operations. In addition, it can have important operational impacts through the Group's systems and infrastructure as all systems will need to account for the changes in the reference rates. Any of these factors may have a material adverse effect on the Group's results of operations, financial condition or prospects.

## **5 Operational Risks**

*5.1 The Group could fail to attract or retain senior management, skilled resources or other key employees.*

The Group's success depends on its ability to attract, retain and develop high calibre talent. The SMCR regime may impact the achievement of this aim as the regime includes a criminal offence of reckless misconduct, a statutory "duty of responsibility" to take reasonable steps to prevent regulatory breaches occurring or continuing in the area of the firm for which they have responsibility and increasing use of senior management attestations. In addition, the limits on variable pay and "clawback" requirements pursuant to CRD IV may put the Group at a competitive disadvantage compared to companies who are not subject to such restrictions, with the macroeconomic conditions and negative media attention on the financial services industry possibly adversely impacting employee retention, colleague sentiment and engagement.

In addition, the uncertainty resulting from the UK's exit from the EU, following the referendum decision, on foreign nationals' long-term residency permissions in the UK may make it challenging for the Group to retain and recruit colleagues with relevant skills and experience.

Failure to attract and retain senior management, skilled resources and key employees could have a material adverse effect on the Group's results of operations, financial condition or prospects.

5.2 *Operational risks such as weaknesses or failures in the Group's processes, systems and security and risks due to reliance on third party services and products could materially adversely affect the Group's operations, results of operations, financial condition or prospects, and could result in the reputational damage of the Group.*

Operational risks, through inadequate or failed processes, systems (including financial reporting and risk monitoring processes) or security, 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 processing and reporting 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 or errors in these processes, systems or security could have an adverse effect on the Group's results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period which may lead to an increase in complaints and damage to the reputation of the Group.

Specifically, failure to develop, deliver or maintain effective IT solutions in line with the Group's operating environment could have a material adverse impact on customer service and business operations. Any prolonged loss of service availability could damage the Group's ability to service its customers, could result in compensation costs and could cause long-term damage to the Group's business and brand. Furthermore, failure to protect the Group's operations from increasingly sophisticated cyber-attacks could result in the loss and/or corruption of customer data or other sensitive information. This could be exacerbated by the increase in data protection requirements as a result of GDPR. The resilience of the Group's IT infrastructure is of critical importance to the Group; accordingly, significant investment has been, and will continue to be, made in IT infrastructure and supporting capabilities to ensure its resilience and subsequently the delivery of services to customers. The Group continues to invest in IT, cyber and information security control environments, including activity on user access management and network security controls to address evolving threats. The Group maintains contingency plans for a range of Group specific and industry wide IT failure and cyber-attack scenarios.

The Group adopts a risk based approach to mitigate the internal and external fraud risks it faces, reflecting the current and emerging fraud risks within the market. This approach drives a continual programme of prioritised enhancements to the Group's technology, process and people related controls, with an emphasis on preventative controls supported by real time detective controls wherever feasible. Group-wide policies and operational control frameworks are maintained and designed to provide customer confidence, protect the Group's commercial interests and reputation, comply with legal requirements and meet regulatory expectations. The Group also plays an active role with other financial institutions, industry bodies and enforcement agencies in identifying and combatting fraud. The Group's fraud awareness programme remains a key component of its fraud control environment. Although the Group devotes significant resources to maintain and regularly update the processes and systems that are designed to protect the security of the Group's systems, software, networks and other technology assets, there is no assurance that all of the Group's security measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems, processes or security could have a material adverse effect on the Group's results of operations, financial condition or prospects.

Third parties upon which the Group relies for important products and services could also be sources of operational risk, specifically with regard to security breaches affecting such parties. Many of the operational risks described above also apply when the Group relies on outside suppliers or vendors to provide key components of its business infrastructure. The Group may be required to take steps to protect the integrity of its operational systems, thereby increasing its operational costs. Additionally, any problems caused by these third parties, including as a result of their not providing the Group their services for any reason, their performing their services poorly, or employee misconduct, could adversely affect the Group's ability to deliver products and services to customers and otherwise to

conduct business. Replacing these third party vendors or moving critical services from one provider to another could also entail significant delays and expense.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Bank 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 FCA and/or the PRA.

5.3 *The Group's business is subject to risks related to cyber-crime.*

The Group holds personally identifiable information on its systems aligned to product and services delivered to customers. Protection is delivered in accordance with data protection legislation, including GDPR. The Group relies on the effectiveness of its Group Information and Cyber Security Policy and associated procedures, infrastructure and capabilities to protect the confidentiality and integrity of information held on its IT infrastructure and the infrastructure of third parties on whom the Group relies. The Lloyds Banking Group also takes protective measures against attacks designed to impact the availability of critical business processes to its customers and the Lloyds Banking Group Board and Lloyds Banking Group Risk Committees oversee such measures.

In certain international locations, there are additional regulatory requirements that must be followed for business conducted in that jurisdiction. In the U.S., for example, Lloyds Banking Group was required from February 2018 to formally attest that it complies with specific cyber security requirements put forth by the New York State Department of Financial Services in Part 500 of Title 23 of the Official Compilation of Codes, Rules and Regulations of the State of New York.

Despite preventative measures (including ensuring incident management capability to respond to such events, by way of regulatory notification, for example), the Group's IT infrastructure, and that of third parties on whom the Group relies, may be vulnerable to cyber-attacks, malware, denial of services, unauthorised access and other events that have a security impact. Such an event may impact the confidentiality or integrity of the Group's or its clients', employees' or counterparties' information or the availability of services to customers. As a result of such an event or a failure in the Group's cyber security policies, the Group could experience material financial loss, loss of competitive position, regulatory actions, breach of client contracts, reputational harm or legal liability, which, in turn, could have a material adverse effect on the Group's results of operations, financial condition or prospects. The Group may be required to spend additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against fully or not fully covered through any insurance that it maintains. The Group is committed to continued participation in industry-wide activity relating to cyber risk. This includes working with relevant regulatory and government departments to evaluate the approach the Group is taking to mitigate this risk and sharing relevant information across the financial services sector.

5.4 *Terrorist acts, other acts of war, geopolitical events, pandemics or other such events could have a material adverse effect on the Group's results of operations, financial condition or prospects.*

Terrorist acts, other acts of war or hostility, geopolitical events, pandemics or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse effect on UK and international macro economic conditions generally, and more specifically on the Group's results of operations, financial condition or prospects in ways that cannot necessarily be predicted.

5.5 *The Group must comply with anti-money laundering, counter terrorist financing, anti-bribery and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could negatively impact customers and expose the Group to liability.*

The Group is required to comply with applicable anti-money laundering, anti-terrorism, sanctions, anti-bribery and other laws and regulations in the jurisdictions in which it operates. These laws and regulations require the Group, amongst other things, to adopt and enforce "know-your-customer" policies and procedures and to report suspicions of money laundering and terrorist financing, and in some countries specific transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated

monitoring and compliance personnel, and have become the subject of enhanced government and regulatory supervision.

The Group has adopted policies and enhanced its procedures aimed at detecting and preventing the use of its banking network and services for money laundering, financing terrorism, tax evasion, human trafficking, modern day slavery and related activities, applying systems and controls on a risk-based approach throughout its businesses and operations, including through its Financial Intelligence Unit and its interactions with external agencies and other financial institutions. These controls, however, may not completely eliminate instances where third parties seek to use the Group's products and services to engage in illegal or improper activities. In addition, while the Group reviews its relevant counterparties' internal policies and procedures with respect to such matters, the Group, to a large degree, relies upon its relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using the Group (and its relevant counterparties) as a conduit for money laundering and terrorist financing (including illegal cash operations) without the Group's (and its relevant counterparties') knowledge. If the Group is associated with, or even accused of being associated with, or becomes a party to, money laundering or terrorist financing, the Group's reputation could suffer and it could become subject to fines, sanctions and/or legal enforcement (including being added to any "black lists" that would prohibit certain parties from engaging in transactions with the Group), any one of which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Furthermore, failure to comply with trade and economic sanctions, both primary and secondary, administered by agencies in the jurisdictions in which the Group operates and to the extent that the Group fails to comply fully with other applicable compliance laws and regulations, the relevant government and regulatory agencies to which it reports have the power and authority to impose fines and other penalties on the Group, including the revocation of licences. In addition, the Group's business and reputation could suffer if customers use its banking network for money laundering, financing terrorism, or other illegal or improper purposes.

*5.6 The Group may fail to execute its ongoing strategic change initiatives, and the expected benefits of such initiatives may not be achieved at the time or to the extent expected, or at all.*

In order to maintain and enhance the Group's strategic position, it continues to invest in new initiatives and programmes. The Group acknowledges the challenges faced with delivering these initiatives and programmes alongside the extensive agenda of regulatory and legal changes whilst enhancing systems and controls. In the development of the Group's strategy, the Group considers these demands against its capacity to ensure successful delivery for both customers and shareholders. The Group's strategic plan provides flexibility through a broad range of initiatives with priorities frequently reviewed to adapt to the external environment, where necessary.

As the Group continues to deliver this strategy there is considerable focus on digitisation and ensuring the Group meets customer demands through digital and mobile platforms. This approach will support the Group in achieving its cost targets.

The successful completion of these programmes and the Group's other strategic initiatives requires ongoing subjective and complex judgements, including forecasts of economic conditions in various parts of the world, and can be subject to significant risks. For example, the Group's ability to execute its strategic initiatives successfully may be adversely impacted by a significant global macroeconomic downturn, legacy issues, limitations in the Group's management or operational capacity and capability or significant and unexpected regulatory change in countries in which the Group operates.

Failure to execute the Group's strategic initiatives successfully could have an adverse effect on the Group's ability to achieve the stated targets and other expected benefits of these initiatives, and there is also a risk that the costs associated with implementing such initiatives may be higher than the financial benefits expected to be achieved, which could materially adversely impact the Group's results of operations, financial condition or prospects.

*5.7 The Group may be unable to fully capture the expected value from acquisitions, which could materially and adversely affect the Group's results of operations, financial conditions or prospects.*

The Group may from time to time undertake acquisitions as part of its growth strategy, which could subject the Group to a number of risks, such as: (i) the rationale and assumptions underlying the

business plans supporting the valuation of a target business may prove inaccurate, in particular with respect to synergies and expected commercial demand; (ii) the Group may fail to successfully integrate any acquired business, including its technologies, products and personnel; (iii) the Group may fail to retain key employees, customers and suppliers of any acquired business; (iv) the Group may be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) the Group may fail to discover certain contingent or undisclosed liabilities in businesses that it acquires, or its due diligence to discover any such liabilities may be inadequate; and (vi) it may be necessary to obtain regulatory and other approvals in connection with certain acquisitions and there can be no assurance that such approvals will be obtained and even if granted, that there will be no burdensome conditions attached to such approvals, all of which could materially and adversely affect the Group's results of operations, financial conditions or prospects.

**5.8** *The Group could be exposed to industrial action and increased labour costs resulting from a lack of agreement with trade unions.*

Within the Group, there are currently two recognised unions for the purposes of collective bargaining. Combined, these collective bargaining arrangements apply to around 95 per cent. of the Issuer's total workforce.

Where the Group or its employees or their unions seek to change any of their contractual terms, a consultation and negotiation process is undertaken. Such a process could potentially lead to increased labour costs or, in the event that any such negotiations were to be unsuccessful and result in formal industrial action, the Group could experience a work stoppage that could materially adversely impact its business, financial condition and results of operations.

## **6 Financial Soundness Related Risks**

**6.1** *The Group's businesses are subject to inherent risks concerning liquidity and funding, particularly if the availability of traditional sources of funding such as retail deposits or the access to wholesale funding markets becomes more limited.*

Liquidity and funding continues to remain a key area of focus for the Group and the industry as a whole. Like all major banks, the Group is dependent on confidence in the short and long-term wholesale funding markets. Should the Group be unable to continue to source sustainable funding, its ability to fund its financial obligations could be impacted.

The Group's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a prolonged period of time. Under extreme and unforeseen circumstances, such as the closure of financial markets and uncertainty as to the ability of a significant number of firms to ensure they can meet their liabilities as they fall due, the Group's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend could be impacted through limited access to liquidity (including government and central bank facilities). 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. These factors may have a material adverse effect on the Group's solvency, including its ability to meet its regulatory minimum liquidity requirements. These risks can be exacerbated by operational factors such as an over-reliance on a particular source of funding or changes in credit ratings, as well as market-wide phenomena such as market dislocation, regulatory change or major disasters.

In addition, corporate and institutional counterparties may seek 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. The funding structure employed by the Group may also prove to be inefficient, thus giving rise to a level of funding cost where the cumulative costs are not sustainable over the longer term. The funding needs of the Group may increase and such increases may be material to the Group's results of operations, financial condition or prospects. The Group relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets to meet its funding needs. The ability of the Group to gain access to wholesale and retail funding sources on satisfactory economic terms is subject to a number of factors outside 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 the level of confidence in the UK banking system, any of which could have a material adverse effect on the Group's profitability or, in the longer term and under extreme circumstances, its ability to meet its financial obligations as they fall due.

Medium-term growth in the Group's lending activities will rely, in part, on the availability of retail deposit funding on appropriate terms, for which there is increasing competition. For more information, see "*Business and Economic Risks — The Group's businesses are conducted in competitive environments, with increased competition scrutiny, and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures*" above. The ongoing availability of retail deposit funding on appropriate terms is dependent on a variety of factors outside the Group's control, such as general macro economic conditions and market volatility, the confidence of retail depositors in the economy, the financial services industry and the Group, as well as the availability and extent of deposit guarantees. Increases in the cost of retail deposit funding will impact on the Group's margins and affect profit, and a lack of availability of retail deposit funding could have a material adverse effect on the Group's future growth.

Any loss in consumer confidence in the Group could significantly increase the amount of retail deposit withdrawals in a short period of time. 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 adverse effect on the Group's solvency.

In recent years, the Group has also made use of central bank funding schemes such as the Bank of England's Term Funding Scheme and Funding for Lending Scheme. Following the closures of these Schemes, the Group will have to replace matured central bank scheme funding, which could cause an increased dependence on term funding issuances. If the wholesale funding markets were to suffer stress or central bank provision of liquidity to the financial markets is abruptly curtailed, or the Group's credit ratings are downgraded, it is likely that wholesale funding will prove more difficult to obtain. 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.

6.2 *The Group's borrowing costs and access to the capital markets are dependent on a number of factors, including any reduction in the Group's longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group's results of operations, financial condition or prospects.*

A reduction in the credit rating of the Group or deterioration in the capital markets' perception of the Group's financial resilience could significantly increase its borrowing costs and limit its issuance capacity in the capital markets. As an indicator, during 2018, the spread between an index of "A" rated long-term senior unsecured bank debt and an index of similar "BBB" rated bank debt, both of which are publicly available, has averaged 42 basis points. The applicability to and implications for the Group's funding cost would depend on the type of issuance and prevailing market conditions. The impact on the Group's funding cost is subject to a number of assumptions and uncertainties and is therefore impossible to quantify precisely.

Rating agencies regularly evaluate the Group and the Bank, and their ratings of longer-term debt are based on a number of factors, including the Group's financial strength as well as factors not entirely within the Group's control, including conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the Group or the Bank will maintain their current ratings. Downgrades of the Group's longer-term credit rating could lead to additional collateral posting and cash outflow. The effects of a potential downgrade from all three rating agencies are included in the Group liquidity stress testing.

The regulatory environment in which the Group operates continues to change. Whilst uncertain at present, the Group's borrowing costs and access to capital markets could be affected by the outcome of certain regulatory developments. For further detail on the potential impact of these regulatory developments on the Group's business, see "*Regulatory and Legal Risks — The Group faces risks associated with an uncertain and rapidly evolving international and national prudential, legal and regulatory environment*" above.

6.3 *The Bank and the Group is subject to the risk of having insufficient capital resources.*

Under PRA requirements, the Group (as the RFB sub-group) became subject to prudential requirements from 1 January 2019. These requirements are in addition to the requirements that the Bank must meet under the existing prudential regime on an individual basis.



If the Issuer and/or the Group has or is perceived to have a shortage of capital then it may be subject to regulatory interventions and sanctions and may suffer a loss of confidence in the market with the result that access to liquidity and funding may become constrained or more expensive. Depending on the extent of any actions to improve the capital position there could be a material adverse effect on the Group's business, including its results of operations, financial condition and prospects. This, in turn, may affect the Group's capacity to continue its business operations, pay future dividends and make other distributions or pursue acquisitions or other strategic opportunities, impacting future growth potential. The Issuer and/or the Group may address a shortage of capital by taking action to reduce leverage exposures and/or risk-weighted assets, for example by way of business disposals. Such actions may impact the profitability of the Group.

A shortage of capital could arise from:

- a depletion of the Group's capital resources through increased costs or liabilities and reduced asset values which could arise as a result of the crystallisation of credit-related risks, regulatory and legal risks, business and economic risks, operational risks, financial soundness-related risks and other risks; and/or
- an increase in the amount of capital that is needed to be held. This might be driven by a change to the actual level of risk faced by the Group or to changes in the minimum levels required by legislation or by the regulatory authorities.

Risks associated with the regulatory framework are described below:

- Within the prevailing UK regulatory capital framework, the Group is subject to extensive regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements (including systemic and/or countercyclical capital requirements) could be applied and/or the manner in which existing regulatory requirements are applied to the Group could be changed by the regulatory authorities. For example:
- Some of the Group's risk-weighted assets are calculated from the Group's approved models. These are subject to regular review on a rolling basis to ensure that they remain appropriate in prevailing economic and business conditions. In addition, ongoing proposals from the Basel Committee, the EBA and the PRA may result in changes to the Group's approved models, for example in relation to changes in how firms model probability of default and Loss Given Default. These reviews and model implementation may lead to increased levels of risk-weighted assets and/or expected loss, which would lower reported capital ratios.
- The minimum capital requirements derived from risk-weighted assets are supplemented by the PRA, under Pillar 2 of the regulatory capital framework, through bank specific additional minimum requirements (informed by the Group's Internal Capital Adequacy Assessment Process (ICAAP) and set through the PRA's Total Capital Requirement) and through buffer requirements (including a systemic risk buffer which is applicable to the Group as the RFB sub-group). There is a risk that through these Pillar 2 processes the PRA may require the Issuer and/or the Group to hold more capital than is currently planned.
- In addition to the risk-based capital framework, the Group (as the RFB sub-group) became subject to UK leverage requirements from 1 January 2019. As at 31 December 2018, the minimum leverage ratio requirement under the UK leverage ratio framework was 3.25 per cent. At least 75 per cent. of the minimum 3.25 per cent. requirement, and the entirety of any buffers that may apply, must be met by Common Equity Tier 1 capital. The calculation of the leverage ratio under the UK leverage ratio framework differs from CRD IV requirements in that the UK version excludes qualifying central bank claims from the leverage exposure measure. Currently, the UK leverage ratio framework does not give rise to higher capital requirements for the Group than the risk-based capital framework but there is a risk that it could do so as a result of a change in the Group's financial position or a strengthening of the regulatory requirements.
- In addition, the regulatory framework continues to evolve, which may impact the Issuer and/or the Group's capital position, for further detail see *"Regulatory and Legal Risks - The Group faces risks associated with an uncertain and rapidly evolving international and national prudential, legal and regulatory environment"* above.

- 6.4 *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 or prospects.*

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 UK. Financial services institutions that deal with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This presents systemic risk and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis, all of which could have a material 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, resulting in a significant credit concentration. 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 adverse effect on the Group's results of operations, financial condition or prospects.

- 6.5 *The Group's defined benefit pension schemes are subject to longevity risk which could adversely affect the Group's financial condition.*

The Group's defined benefit pension schemes are exposed to longevity risk. Increases in life expectancy (longevity) beyond current allowances will increase the period over which pension scheme benefits are paid and may adversely affect the Group's financial condition.

## **7 Other Risks**

- 7.1 *The Group's financial statements are based, in part, on assumptions and estimates.*

The preparation of the Group's 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.

In addition, on 1 January 2018, the Group adopted IFRS 9 which addresses aspects of the accounting for financial assets and liabilities. In particular, IFRS 9 introduced a new model for recognising and measuring impairment allowances based on expected credit losses, rather than an incurred loss model previously applied under IAS 39 ("Financial Instruments: Recognition and Measurement"), resulting in the earlier recognition of credit losses.

In applying the accounting policies deemed critical to the Group's results and financial position as set out in the Issuer's 2018 Annual Report in "Note 2 to the accounts – Accounting Policies", management is required to make significant judgements and estimates, which include impairment losses on loans and receivables, valuation of financial instruments, pensions, insurance and taxation as set out in the Issuer's 2018 Annual Report in "Note 3 to the accounts — Critical accounting judgements and estimates".

The consolidated financial statements are prepared using judgements, estimates and assumptions based on information available at the reporting date. If one or more of these judgements, estimates and assumptions is subsequently revised as a result of new factors or circumstances emerging, there could be a material adverse effect on the Group's results of operations, financial condition or prospects and a corresponding impact on its funding requirements and capital ratios.

- 7.2 *Failure to manage the risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, could materially adversely affect the Group's results of operations, financial condition or prospects.*

Tax risk is the risk associated with changes in taxation rates, applicable tax laws, misinterpretation of such tax laws, disputes with relevant tax authorities in relation to historic transactions, or conducting a challenge to a relevant tax authority. Failure to manage this risk adequately could cause the Group to suffer losses due to additional tax charges and other financial costs including penalties. Such failure could lead to adverse publicity, reputational damage and potentially costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the Group's results of operations, financial condition or prospects.

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

### **8 Risks related to the Covered Bond Guarantee**

#### *8.1 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 (*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 other than in accordance with the Guarantee Priority of Payments.

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 (*Taxation*).

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.

#### *8.2 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 is intended 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 are in the aggregate intended 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.

### 8.3 *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 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 Bank plc if it does not make Cash Capital Contributions to the LLP.

*Amortisation Test:* Pursuant to the LLP Deed, the LLP and Lloyds 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. However, there is no assurance that the assets of the LLP will be sufficient for such purposes.

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*.

The Asset Coverage Test and the Amortisation Test reference amongst other things the Halifax Index (as a component of the Indexed Valuation).

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.

#### 8.4 *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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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.

**8.5** *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.

**8.6** *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.

In addition, the Portfolio may contain interest-only loans. It is the responsibility of the relevant Borrower to have an investment plan in place to assist that Borrower to ensure that funds will be available to repay the principal at the end of the term. The Seller has not always verified that an investment plan is in place and does not take security over these investment plans. From 26 April 2014, the Seller, at the time of application for an interest-only loan or further advance or product switch, will (with permitted exceptions) obtain evidence that the Borrower will have in place a clearly understood and credible repayment strategy and that the repayment strategy has the potential to repay the principal at the end of the term.

The ability of a Borrower to repay the principal on an interest-only loan at maturity depends on the Borrower ensuring that sufficient funds are available from an investment plan or another source, such as ISAs, pension policies or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. The proceeds from an investment plan or other

investment may be insufficient to cover the repayment of principal of the loan which may result in a default by the Borrower.

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.

8.7 *The Loans of New Sellers other than Lloyds Bank plc, and originators, other than Lloyds Bank plc and BOS 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 Originators. 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.

Additionally, loans originated by a member of Lloyds Banking Group, other than Lloyds Bank plc and BOS, may be included in the Portfolio. Any such loans will be purchased by Lloyds Bank plc pursuant to an intercompany mortgage sale agreement, before Lloyds Bank plc (in its capacity as Seller) sells them to the LLP pursuant to the Mortgage Sale Agreement. Any of these loans may have been originated in accordance with lending criteria which differs from that of the Originators. As noted above, the difference in the lending criteria may affect 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. 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.

8.8 *Changes to the Lending Criteria of the Originators since the time of origination*

Each of the Loans originated by the Originators will have been originated in accordance with their Lending Criteria at the time of origination, subject only to exceptions properly approved on a case-by-case basis. It is expected that each Originator'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 the Lending Criteria applicable at the time of origination, subject only to exceptions properly approved on a case-by-case basis. The Originators retain the right to revise their 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.

8.9 *The LLP does not have legal title to the Loans in the Portfolio on the relevant Sale Date and in some instances the Seller does not itself have legal title to the Loans sold by it to the LLP in the Portfolio.*

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 relevant Originator, which may not be the Seller (under the terms of the Intercompany Mortgage

Sale Agreement, BOS will retain legal title to the Halifax Loans and their Related Security until the occurrence of certain perfection events set out therein). 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. In such circumstances, the Seller will require the relevant Originator to transfer legal title to it, in order for the Seller to comply with the terms of the Mortgage Sale Agreement.

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 relevant Originator 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 relevant Originator of its contractual obligations or fraud, negligence or mistake on the part of the relevant Originator 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 relevant Originator, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the relevant Originator, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the relevant Originator; 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 relevant Originator 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 relevant Originator (such as, for example, set-off rights associated with Borrowers holding deposits with the relevant Originator) 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 relevant Originator. However, there is no assurance that these steps will prevent set-off risks from adversely affecting the realisable value of the Loans. Further, for so long as the LLP does not have legal title, the relevant Originator 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 relevant Originator'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.



8.10 *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 relevant Originator. Therefore, the rights of the LLP may be subject to the direct rights of the Borrowers against the relevant Originator, 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 relevant Originator is required to make payments under them to the Borrowers. For instance, set-off rights may occur if the relevant Originator 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 relevant Originator in the future may have similar characteristics involving payments due from the relevant Originator to the Borrower or third parties on behalf of the Borrower.

For instance, if the relevant Originator 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 relevant Originator's breach of contract against the relevant Originator'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 relevant Originator'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 relevant Originator's breach of contract where there are special circumstances communicated by the Borrower to the relevant Originator 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 relevant Originator.

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). The exercise of set-off rights by Borrowers may nevertheless adversely affect the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

8.11 *The Originators have adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the Portfolio and which may adversely affect payments on the Covered Bonds*

The Originators do not require a solicitor or a licensed conveyancer or (in Scotland) a qualified conveyancer to conduct a full investigation of the title to a mortgaged property in all cases. Where the

borrower is remortgaging, there may be a more limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor conducting a full investigation of the title to a mortgaged property. Mortgaged properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the mortgaged properties not being accepted as security for a loan had such matters been revealed. However, no search indemnity insurance is obtained in respect of such mortgaged properties to mitigate against this risk. The introduction of Loans secured by such Properties into the Portfolio could result in a change of the characteristics of the Portfolio. This could lead to a delay or reduction in the payments received on the Covered Bonds.

## 8.12 *Mortgage Prisoners*

In March 2019, the FCA issued the Mortgages Market Study Final Report (the **MMS Final Report**) and published a consultation paper (the **Consultation**) setting out detailed proposals to remove regulatory barriers to changing mortgages for “mortgage prisoners”. The Consultation closes in June 2019. The term “mortgage prisoners” has been defined by the FCA to mean mortgage customers who would benefit from changing their mortgage product (either with their existing lender or with a new lender) (**Switching**) but are unable to do so despite being up to date with their current mortgage payments. The FCA has confirmed that the findings from the MMS Final Report are aimed at the first charge residential mortgage market in particular and that it did not focus on second charge, buy-to-let, commercial mortgages or home reversion plans. The FCA have however stated that insights gained from the MMS Final Report are likely to be relevant to other markets within the FCA’s regulatory scope.

The FCA previously recognised that the affordability rules applicable to new lenders (being whether the consumer can afford to service the mortgage, accounting for income and expenditure and includes consideration of future changes, taking account of likely future interest rates and the extent to which the customer is borrowing in to retirement) was an obstacle to new lenders being able to facilitate Switching. The Consultation sets out proposals as to how to modify these rules so that a borrower Switching who is up to date with their mortgage payments and is not taking on additional borrowing (other than to fund any product or arrangement fee) can pass the affordability test if the new product is cheaper than the existing product. The FCA is also consulting pursuant to the Consultation on imposing on mortgage administrators and servicers who act for unregulated lenders an obligation to notify all relevant borrowers of that unregulated lender serviced by that administrator or servicer of the fact that the borrower may be able to switch to a cheaper product following the change in rules. These notices would only apply to residential borrowers (excluding lifetime mortgages) who were on a reversion rate and who were up to date with payments for the previous 12 months. The proposed modification of the rules should make it easier for a borrower who is a mortgage prisoner to switch to a new lender and this could increase redemption rates where there are a significant number of mortgage prisoners held by a lender..

## 9 **Risks relating to the LLP**

### 9.1 *Excess Proceeds received by the Bond Trustee and/or the Australian Bond Trustee*

Following service of an Issuer Acceleration Notice, the Bond Trustee and/or the Australian Bond Trustee (as applicable) may receive Excess Proceeds. The Excess Proceeds will be paid by the Bond Trustee and/or the Australian Bond Trustee (as applicable) 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 and/or the Australian Bond Trustee (as applicable) 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 and/or the Australian Bond Trustee (as applicable) 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 and /or (in case of the A\$ Covered Bondholders, as applicable) the Australian the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

## 9.2 *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 Representations or Warranties and, other than to Lloyds Bank plc in its capacity as the Seller, there is no recourse to the other Originator.

## 9.3 *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 (if applicable) and the Covered Bond Guarantee, in the circumstances described in the following two risk factors. In addition, following an Issuer Event of Default and the subsequent sale of Loans by the LLP in accordance with the LLP Deed, such sale proceeds will be deposited in the GIC Account for application in accordance with the provisions of the LLP Deed when amounts are Due for Payment. Although the GIC Provider is subject to rating downgrade triggers in the Bank Account Agreement, should the GIC Provider fail to pay the required amounts in accordance with the instructions of the LLP or the Cash Manager, there may not be sufficient funds available to the LLP to make payments on the Covered Bonds when the same shall become Due for Payment.

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, any substitute servicer would be required to be authorised under the FSMA. 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 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.

#### 9.4 *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 may enter into an Interest Rate Swap with the Interest Rate Swap Provider under the Interest Rate Swap Agreement. In addition, 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 on the outstanding Term Advances and under the Covered Bond Guarantee in respect of the Covered Bonds, the LLP may 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. 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 may, 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.

9.5 *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.

9.6 *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 and the GIC Provider) are required to satisfy certain criteria in order that they can continue to receive and hold moneys.

These criteria include requirements imposed 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. However, it may not be possible to find a suitably rated counterparty to replace the original counterparty. 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.

9.7 *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 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.

9.8 *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 (i) a breach of the Pre-Maturity Liquidity Test; and/or (ii) service of an Asset Coverage Test Breach Notice which remains outstanding or (iii) service of a Notice to Pay (but in each case prior to the 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 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 (or BOS but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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 (or BOS but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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.

9.9 *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;
- the Loans of originators other than Lloyds Bank plc and BOS being included in the Portfolio;
- changes to the lending criteria of the relevant Originator 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;
- no representations or warranties being given by the LLP or (unless otherwise agreed with the relevant Originator) the Originators;
- limited recourse to the Seller or any New Seller and no recourse to the Originators (other than to Lloyds Bank plc in its capacity as Seller);
- reliance of the LLP on third parties;
- possible regulatory changes by the FCA, the PRA 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*");
- the impact of the Pensions Act 2004 (see "*General risk factors*"); and

- geographic risks, as geographic regions within the UK have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the UK.

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. However, 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.

## 10 Risk factors relating to the Covered Bonds

### 10.1 *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.

### 10.2 *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.

### 10.3 *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.

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

Covered Bondholders will receive only limited detailed statistics or information in relation to the Loans in the Portfolio. This information will be set out in the relevant investor report and will relate to the Asset Pool at the end of the immediately preceding month and will not reflect any subsequent changes to the Portfolio since such date. 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, which may include Loans originated by originators other than the Seller and BOS;
- 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, or similar to, those Loans in the Portfolio as at that Sale Date or as further described in this Prospectus. Furthermore, although 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.

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

While over the last few years, interest rates have remained at relatively low levels historically 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. Any decline in housing prices may 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 on the Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Covered Bonds.

#### 10.6 *EU financial transaction tax*

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the “**Commission's proposal**”) for a financial transaction tax (**FTT**) to be adopted in certain participating EU member states (including Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, Slovakia (the “**participating member states**”) and Estonia, although Estonia has since stated that it will not participate). If the Commission's proposal was adopted, the FTT would be a tax primarily on “financial institutions” (which would include the Issuer) in relation to “financial transactions” (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's proposal, the FTT could apply to persons both within and outside of the participating member states. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, “established” in a participating member state in a broad range of circumstances, including (a) by transacting with a person established in a participating member state or (b) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate.

Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

#### 10.7 *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.

**A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the**

**potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.**

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended subject to transitional arrangements that apply in certain circumstances). Certain information with respect to the credit rating agencies and ratings referred to in this Prospectus, is set out in *Overview of the Programme – Ratings* of this Prospectus. The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

**10.8** *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.

**10.9** *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 Notice 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.

Covered Bonds may be issued by the Issuer which are unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market or N Covered Bonds. Holders of such unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market or N Covered Bonds will have the same rights as holders of Covered Bonds issued pursuant to this Prospectus, including recourse to, amongst other things, the Portfolio, the Reserve Fund and hedging arrangements and such Covered Bonds shall be counted for the purposes of (inter alia) various tests such as the Asset Coverage Test, Amortisation Test and the statutory interest cover test and minimum overcollateralization requirements under the RCB Regulations as well as voting by Covered Bondholders (including in respect of an Issuer Event of Default or LLP Event of Default). Unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market and N Covered Bonds will rank *pari passu* with all other Covered Bonds issued pursuant to the Programme from time to time. All Covered Bonds will have the benefit of the Covered Bond Guarantee and the Security granted by the LLP in respect of the Charged Property. These other Covered Bonds (being unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market or N Covered Bonds) issued by the Issuer will not be issued pursuant to this Prospectus. Holders of Covered Bonds listed pursuant to this Prospectus will rank *pari passu* with holders of such unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market or N Covered Bonds. Any Issuer Event of Default and/or LLP Event of Default in relation to such unlisted Covered Bonds, Covered Bonds not admitted to trading on any regulated or unregulated market or N Covered Bonds could have an adverse effect on the holders of the listed Covered Bonds which are issued pursuant to this Prospectus.

#### 10.10 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 limit);
- 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.

#### 10.11 *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.

#### 10.12 *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 Banking 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 Banking 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 10 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.

#### 10.13 *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 Group act in several capacities (such as Interest Rate Swap Provider, Issuer, Cash Manager, Servicer and Account Bank) 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.

So far as the Issuer is aware, there are no potential conflicts of interest between any duties of the members of the Group acting in their several capacities under the Transaction Documents, as at the date of this Prospectus.

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer, the LLP and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may also enter into swap and derivative transactions with the Issuer, the LLP and their affiliates and/or in relation to Covered Bonds issued under the Programme.

*10.14 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 notification in accordance with Regulation 20 of the RCB Regulations; or (b) if such modification, waiver or authorisation would require notification in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the Authorities and the Authorities have given their 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, Receipholders 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.

*10.15 Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Bond Trustee in writing*

In addition to the right of the Bond Trustee to make certain modifications to the Transaction Documents without the consent of Covered Bondholders described under “—*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*”, the Bond Trustee shall, without any consent or sanction of the Covered Bondholders or any of the other Secured Creditors, concur with the Issuer in making any modification (other than a Series Reserved Matter) to the Trust Deed, the Conditions or any other Transaction Document to which it is a party or in relation to which it holds security for the purpose of changing the Reference Rate to an Alternative Base Rate as further described in Condition 14(d) (*Meetings of Covered Bondholders, Modification and Waiver*) on the relevant Series of Covered Bonds outstanding (and such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change, such amendments do not constitute a Series Reserved Matter) to the extent there has been or there is reasonably expected to be a material disruption or cessation to LIBOR, EURIBOR, BBSW, SONIA and SOFR in each case subject to the satisfaction of certain requirements, including receipt by the Bond Trustee of a Base Rate Modification Certificate, certifying, among other things, that the modification is required for its stated purpose.

The Issuer must provide at least 30 days' notice to the Covered Bondholders of the proposed modification in accordance with Condition 13 (*Notices*) and by publication on Bloomberg on the “Company News” screen relating to the Covered Bonds and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have not contacted the Bond Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Covered Bonds may be held) within such notification period notifying the Bond Trustee that such Covered Bondholders do not consent to the modification. If, within 30 calendar days from the giving of such notice, Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Bond Trustee in writing (or otherwise in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held) that such Covered Bondholders do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 14(d) (*Meetings of Covered Bondholders, Modification and Waiver*). However, in the absence of such a notification, all Covered Bondholders will be deemed to have consented to such modification and the Bond Trustee shall, subject to the requirements of Condition 14(d) (*Meetings of Covered Bondholders, Modification and Waiver*), without seeking further consent or sanction of any of the Covered Bondholders and irrespective of whether such modification is or may be materially prejudicial to the interest of the Covered Bondholders, concur with the Issuer in making the proposed modification.

Therefore, it is possible that a modification could be made without the vote of any Covered Bondholders or even if holders holding less than 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding objected to it. In addition, Covered Bondholders should be aware that, unless they have made arrangements to promptly receive notices sent to Covered Bondholders from any custodians or other intermediaries through which they hold their Covered Bonds and give the same their prompt attention, Meetings may be convened or resolutions (including Extraordinary Resolutions) may be proposed and considered and passed or rejected or deemed to be passed or rejected without their involvement even if, were they to have been promptly informed, they would have voted in a different way from the Covered Bondholders which passed or rejected the relevant proposal or resolution.

*10.16 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.

*10.17 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.

*10.18 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.

*10.19 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.

*10.20 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 A\$ Registered Covered Bonds will only be issued in registered uncertificated form with details of the ownership of the A\$ Registered Covered Bonds being entered into the A\$ Register. 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, DTC or the Austraclear System (as applicable) 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.

## **11 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:

### *11.1 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.

### *11.2 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 is or 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, the Issuer may redeem all outstanding Covered Bonds in accordance with the Terms and Conditions.

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

Fixed/Floating Rate Covered Bonds bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in and the market value of the Covered Bonds as the change of interest basis may result in a lower interest return for Covered Bondholders. Where the Covered Bonds convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than then 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. Where the Covered Bonds convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Covered Bonds and could affect the market value of an investment in the relevant Covered Bonds.

### *11.4 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.

### *11.5 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.



### *11.6 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.

## **12 General risk factors**

### *12.1 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.

### *12.2 Inquiries into payment protection insurance*

Financial institutions, including mortgage lenders, continue to see a volume of claims for redress made by claimants who claim they were mis-sold payment protection insurance (**PPI**). The Financial Ombudsman Service (**FOS**) has provided guidance to the credit industry as to the correct approach to redress, which is published on its website ([http://www.financialombudsman.org.uk/publications/technical\\_notes/ppi/redress.html](http://www.financialombudsman.org.uk/publications/technical_notes/ppi/redress.html)).

This is that the consumer should be put back into the position they would have been in but for the failure on the part of the lender or broker. Redress should be assessed on the basis that the claimant would not have purchased the policy, if the lender or broker had given a fair recommendation and/or had given appropriate information during the sale – and that the claimant should be compensated if he has been out-of-pocket in the meantime.

The relevant regulators expect the credit industry to follow the FOS-mandated approach. Depending on the precise circumstances of each case, redress will normally involve calculating what the current balance of the loan would have been if the consumer had made the same monthly payments but without PPI. This is calculated by deducting the PPI premiums and the interest and charges that resulted from those premiums (including those arising because the ongoing balance on the loan was higher than it would have been, if the consumer had made the same payments to an account without PPI). If the reconstruction produces a credit balance for any period, the payment of interest (normally at the rate of 8% simple per year) should be added to the credit balances for the period that the account was in credit. This highly complex calculation methodology can result in high redress, particularly where the loan has been significantly utilised over a long period, as PPI is typically charged by reference to the loan balance. Where appropriate (for example, where the lender or broker rejected a complaint that it knew (or should have known) that the FOS would uphold), damages for distress/inconvenience may also need to be considered.

PPI redress is generally paid by cheque to each individual claimant as a matter of course, except where the loan is delinquent, in which case the Borrower will be advised that redress is to be set-off against

the balance unless the Borrower opts to have it paid by cheque. Generally, it is within claimants' rights to request that their PPI redress is set-off against their balance, giving rise to a risk that the Issuer, or, as applicable, the LLP does not receive the full amount otherwise owed by the Borrower under the relevant Loan.

The FCA have made a rule which sets a deadline by which consumers will need to make their PPI complaints or lose their right to have them assessed by firms or the FOS (although consumers will still be able to bring claims in court after the deadline). This rule came into force on 29 August 2017 with the deadline for complaints falling on 29 August 2019.

Set-off by Borrowers in respect of PPI claim amounts against the amount due by the Borrower under the relevant Loans may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

### 12.3 *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, 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.

### 12.4 *Failure by the Originator or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts*

Residential mortgage lending in the UK became a regulated activity under the FSMA on 31 October 2004 (the date known as the **Regulation Effective Date**). Residential mortgage lending under the FSMA is regulated by the FCA (known before 1 April 2013 as the FSA). Subject to certain exemptions, entering into, arranging or advising in respect of or administering regulated mortgage contracts (or agreeing to do any of these things) are regulated activities under the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (the **RAO**) requiring authorisation and permission from the FCA.

The original definition of a regulated mortgage contract was such that if a mortgage contract was entered into on or after the Regulation Effective Date, it will be a **regulated mortgage contract** under the RAO if: (i) the lender provides credit to an individual or to trustees; and (ii) the obligation of the Borrower to repay is secured by a first legal mortgage (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the UK, at least 40% of which is used, or is intended to be used, as or in connection with a dwelling by the Borrower or the beneficiary under the trust where the Borrower is a trustee and the beneficiary is an individual, or by a related person. A related person is broadly the person's spouse, near relative or a person with whom the Borrower has a relationship which is characteristic of a spouse.

There have been incremental changes to the definition of regulated mortgage contract over time, including, from 21 March 2016, the removal of the requirement for the security to be first ranking and the extension of the territorial scope to cover property in the EEA rather than just the UK. The current definition of a regulated mortgage contract is such that it will be a regulated mortgage contract if it meets the following conditions (when read in conjunction with and subject to certain relevant exclusions) (a) the borrower is an individual or trustee; and (b) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, (i) in the case of credit provided to an individual, as or in connection with a dwelling by that individual or a related person; or (ii) in the case of credit provided to a trustee which is not an individual, as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person. A related person is broadly the person's spouse, near relative or a person with whom the borrower (or in

the case of credit provided to trustees, a beneficiary of the trust) has a relationship which is characteristic of a spouse.

Credit agreements which were originated before 21 March 2016, which were regulated by the CCA, and that would have been regulated mortgage contracts had they been entered into on or after 21 March 2016 are 'consumer credit back book mortgage contracts' and are also therefore regulated mortgage contracts (see "*Regulation of residential secured lending (other than regulated mortgage contracts)*").

On and from the Regulation Effective Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a regulated mortgage contract as lender; (b) administering a regulated mortgage contract ("administering" in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising on regulated mortgage contracts; and (d) arranging regulated mortgage contracts. Agreeing to carry on any of these activities is also a regulated activity. If the lender or any broker did not hold the required authorisation at the relevant time, a regulated mortgage contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a regulated mortgage contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of regulated mortgage contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. Failure to comply with the financial promotions regime (as regards by whom promotions can be issued or approved) is a criminal offence and will render the regulated mortgage contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

The Originators are required to hold, and hold, authorisation and permission to enter into and to administer and, where applicable, to advise on regulated mortgage contracts. Subject to any exemption, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise on regulated mortgage contracts.

The LLP is not, nor proposes to become, an authorised person under the FSMA. The LLP does not carry on the regulated activity of administering (servicing) mortgage contracts, because the Loans are serviced pursuant to the Servicing Agreement by the Servicer, which has the required authorisation and permission. If the Servicing Agreement terminates, however, the LLP will have a period of not more than one month in which to arrange for mortgage servicing to be carried out by a replacement servicer having the required authorisation and permission. In addition, no variation is permitted to be made to the Loans and no further advance or product switch is permitted to be made in relation to a Loan where it would result in the LLP arranging or advising in respect of, administering (servicing) 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.

## 12.5 *Regulation of residential secured lending (other than regulated mortgage contracts)*

The UK Government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending rather than the regime for consumer credit under which second charge lending fell. The UK Government thought that there was a strong case for regulating lending secured on a borrower's home consistently, regardless of whether it is a first or subsequent charge. The European Mortgage Credit Directive (2014/17/EU) (**Mortgage Credit Directive**) also follows this principle and makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK Government concluded that it made sense to implement the changes to second (and subsequent) charge lending alongside the implementation of the Mortgage Credit Directive. The UK Government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the regulated mortgage contract regime rather than keeping them within the consumer credit regime. The policy of regulating lending secured on a borrower's home consistently also meant that the UK Government decided to change the regulatory regime of pre-2004 first charge loans regulated by the CCA. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not

otherwise exempt. In November 2015, the UK Government made legislation which meant that the administration of and other activities relating to those pre-October 2004 first charge mortgages which were regulated by the CCA became regulated mortgage activities from 21 March 2017, although firms could have adopted the new rules from 21 March 2016 if they chose. The move of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (**Mortgage Credit Directive Order**). The government has put in place transitional provisions for existing loans so that some of the CCA protections in place when the loans were originally taken out are not removed retrospectively.

Credit agreements which were originated before 21 March 2016 which were regulated by the CCA and that would have been regulated mortgage contracts had they been entered into on or after 21 March 2016 are defined by the Mortgage Credit Directive Order as "consumer credit back book mortgage contracts" and would also therefore be Regulated Mortgage Contracts. The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement was still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that agreement or the relevant part of it will remain void. Restrictions on early settlement fees will also be retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with s77A CCA (duty to serve an annual statement) or s86B CCA (duty to serve a notice of sums in arrears), once the consumer credit back book mortgage contract became regulated by FSMA under the Mortgage Credit Directive Order as of 21 March 2016 or 21 March 2017 as applicable, the sanction of interest not being chargeable under s77A CCA and s86D CCA ceases to apply, but only for interest payable under those loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to the unfair relationship provisions described below. Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards also apply (MCOB 2).

The Seller will give warranties to the LLP in the Mortgage Sale Agreement that, among other things, each of the Loans and their Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be or is not cured within the time periods specified in the Mortgage Sale Agreement, then the Seller will, upon receipt of notice from the LLP, be solely liable to repurchase the relevant Loan(s) and their Related Security from the LLP in accordance with the Mortgage Sale Agreement.

Buy-to-let mortgages are excluded from the definition of "consumer credit back book mortgage contract". This means that if a buy-to-let mortgage was regulated by the CCA (because the amount of credit fell below the relevant financial limit in place at the time of origination and was not otherwise exempt), it will continue to be regulated by the CCA as it is not a "consumer credit back book mortgage contract".

This regulatory regime may result in adverse effects on the enforceability of certain Loans and consequently the LLP's ability to make payment in full on the Covered Bond Guarantee when due.

**12.6** *If a significant number of Borrowers attempt to set off claims for damages based on contravention of a rule under the FSMA against the amount owing by the Borrower under a Loan, there could be a material decrease in receipts from the Portfolio*

The Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**), which sets out rules under the FSMA for regulated mortgage activities, came into force on 31 October 2004. These rules cover certain pre-origination matters such as financial promotions and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. 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 may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of a rule under the FSMA (such as the rules in MCOB), or 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 with that authorised person (or exercise analogous rights in Scotland). Any such claim or set-off in relation to a Loan in the Portfolio 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.

It should be noted that prior to 31 October 2004, self-regulation of mortgage business existed in the UK under the Mortgage Code (the **Mortgage Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller subscribed to the Mortgage Code. Membership of the CML and compliance with the Mortgage Code were voluntary. The Mortgage Code set out a minimum standard 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 Mortgage Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 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 Mortgage Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The Mortgage Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for regulated mortgage contracts.

In June 2010, the FSA made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms (such as the Seller) with respect to forbearance in the context of regulated mortgage contracts into formal mandatory rules. Under these rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA indicated, and it is expected that the FCA will follow the same approach, that it did not expect each forbearance option referred to in the new rules to be explored at every stage of interaction with the borrower, it is clear that the new rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions. As a result, the new rules may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the servicing arrangements contemplated by such documents) in respect of one or more Loans and their Related Security. No assurance can be made that any such actions will not reduce the amounts available to meet the payments due in respect of the Covered Bonds, although the impact of this will depend on the number of Loans which involve a Borrower who experiences payment difficulties.

*12.7 Changes to UK mortgage regulation and to the regulation structure in the United Kingdom may adversely affect payments on the Covered Bonds*

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009 to consider strengthening rules and guidance on, among other things, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA published a feedback statement and final rules that generally came into force on 26 April 2014 with transitional arrangements where, among other things, the borrower does not take on additional borrowing. These rules have, for example, imposed more stringent requirements on lenders to assess the affordability of a loan made to a borrower and to verify the income of a borrower.

In relation to interest-only loans that are not buy-to-let loans, the mortgage market review introduced rules that require relevant institutions, with effect from 26 April 2014, to obtain evidence (with permitted exceptions) that a borrower will have in place a clearly understood and credible payment strategy and that the payment strategy has the potential to repay the principal at the end of the term of an interest-only loan.

The FCA started to track firms' progress towards implementation of the mortgage market review from the second quarter of 2013 and: (i) in June 2015 published a report following a thematic review concerning the quality and suitability of mortgage advice provided by firms; and (ii) it began a further thematic review on responsible lending in April 2015, publishing a report in May 2016. In December 2016, it launched a market study focusing on consumers' ability to make effective choices in the first

charge residential mortgage market, on which it produced an interim report in May 2018. Final findings and next steps have not yet been published. This is in addition to regulatory reforms being made as a result of the implementation of the Mortgage Credit Directive from 21 March 2016 (see "*Directive on credit agreements relating to residential property*"). It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and other related future regulatory reforms. To the extent that the new rules do apply to any of the Mortgage Loans, failure to comply with these rules may entitle a Borrower to claim damages for loss suffered or set-off the amount of the claim against the amount owing under the Loan. Any such claim or set-off may reduce the amounts available to the LLP to make payments under the Covered Bond Guarantee.

In December 2012, the Financial Services Act 2012 received royal assent. This Act contains provisions which (among other things) on 1 April 2013 replaced the FSA with the PRA, which is responsible for prudential regulation of financial institutions that manage significant risks on their balance sheets, and the FCA, which is responsible for regulating compliance with on-going conduct of business requirements. This Act also contains provisions enabling the transfer of regulatory authority (including consumer credit regulation) from the Office of Fair Trading (the **OFT**) to the FCA. The relevant secondary legislation was enacted in 2013 and 2014 and the transfer was effected on 1 April 2014.

Under the Financial Services Act 2012: (a) the carrying on of servicing activities in certain circumstances by a person exercising the rights of the lender without FCA permission to do so renders the credit agreement unenforceable, except with FCA approval; and (b) the FCA has the power to make rules to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules.

## 12.8 *Unfair relationships*

Under the Consumer Credit Act 1974, the "extortionate credit" regime was 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 and also applies to (as described above) "consumer credit back book mortgage contracts". If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring the relevant Originator, or any assignee such as the Issuer, to repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the conduct of the creditor or anyone acting on behalf of the creditor before and after making the agreement or in relation to any related agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict when a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR (as defined below). The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, as of 1 April 2013, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

*Plevin v Paragon* [2014] UKSC 61, a Supreme Court judgment, has clarified that compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules. Where add-on products such as insurance are sold and are subject to significant commission payments, it is possible that the non-disclosure of commission by the lender is a factor that could form part of a finding of unfair relationship.

In March 2017, the FCA published final rules and guidance with respect to payment protection insurance complaints in light of *Plevin*. The rules will not apply to Borrowers with regulated mortgage contracts. The FCA rules came into force on 29 August 2017 and required firms that sold PPI to write to previously rejected mis-selling complainants who are eligible to complain again in light of *Plevin* in order to explain this to them by 29 November 2017. The FCA rules state that if the anticipated profit share and commission or the likely range of profit share and commission on a PPI contract were not disclosed to the Borrower before the PPI contract was entered into, the firm should consider whether it can satisfy itself on reasonable grounds that an unfair relationship did not arise. A firm should make a rebuttable presumption that failure to disclose commission gave rise to an unfair relationship if the

anticipated profit share plus the commission known or reasonably foreseeable at the time of sale was in relation to a single premium payment protection contract, more than 50% of the total amount paid in relation to the PPI Contract or, in the case of a regular premium PPI contract, at any time in the relevant period or period more than 50% of the total amount paid in relation to the PPI contract in respect of the relevant period or periods. The FCA cites, amongst others, an example of such presumption being rebutted by the lender not having known and not being reasonably expected to have known or foreseen the level of commission and anticipated profit share. Where the firm concludes that the non-disclosure of commission on a PPI Contract has given rise to an unfair relationship, the FCA states that the firm should remedy the unfairness by paying the complainant a sum equal to the total commission paid by the complainant for PPI plus an amount representing any profit share payment, minus 50% of the total amount paid by the complainant for the PPI (**Compensation Sum**). The firm should also pay historic interest in relation to the Compensation Sum (which is the interest the complainant paid as a result of the Compensation Sum being included in the loan) where relevant and also pay simple interest on the whole amount.

If a court determined that there was an unfair relationship between the lender and the borrowers in respect of the Loans and ordered that financial redress was made in respect of such Loans or if redress was due in accordance with the FCA guidance on PPI Complaints, such redress may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans, and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

## 12.9 *Directive on credit agreements relating to residential property*

The Mortgage Credit Directive was published in the Official Journal of the European Union on 28 February 2014, and entered into force on 21 March 2014. The Mortgage Credit Directive had to be transposed into the national law of each member state of the European Union by 21 March 2016. The Mortgage Credit Directive aims to create an EU-wide mortgage credit market with a high level of consumer protection and it applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state of the EU (a **Member State**) on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to finance the purchase or retention of rights in land or in an existing or proposed residential building; and extends the Consumer Credit Directive (2008/48/EC) to (c) unsecured credit agreements the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. The Mortgage Credit Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The Mortgage Credit Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Credit Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

On 25 March 2015, the Mortgage Credit Directive Order was passed in order to make the necessary legislative changes to implement the Mortgage Credit Directive. Whilst certain provisions of the Mortgage Credit Directive Order came into force before 21 March 2016, the Mortgage Credit Directive Order took effect for most purposes on 21 March 2016. The FCA has also made amendments to its handbook in order to give effect to the Mortgage Credit Directive, including the amendment to make the consumer buy to let mortgage business subject to the FCA's dispute resolution rules and within the Financial Ombudsman Service's jurisdiction. As discussed above, although the Mortgage Credit Directive generally only applies to credit agreements entered into on or after 21 March 2016, the UK's implementation of the Mortgage Credit Directive will also operate to bring consumer credit back book mortgage contracts into the FCA regime for Regulated Mortgage Contracts.

The mortgage market review changes to MCOB and any future changes to MCOB that are necessitated by the Mortgage Credit Directive and the Mortgage Credit Directive Order, may adversely affect the Loans, the Seller, the LLP and/or the Servicer and their respective businesses and operations.

Until the Mortgage Credit Directive has been fully implemented into UK law for some time, it is not possible to tell what effect the Mortgage Credit Directive and the implementation of the directive into UK law will have on the Loans, the Sellers, the LLP and/or the Servicer and their respective businesses

and operations. However, the UK's approach to implementation has been to minimise the impact of the Mortgage Credit Directive on the UK mortgage market by building on the existing UK regulatory regime (rather than copy out the directive into UK legislation).

#### *12.10 Automatic capitalisation*

On 24 April 2017, the FCA issued a finalised guidance (FG17/4) relating to issues arising from automatic capitalisation, in particular cases where lenders both add arrears to an account balance (and as a result readjust the amount of regular payments due under the loan) and keep a separate record of the Borrower's arrears and seek separate (and additional) payment of those. In the finalised guidance, the FCA state that they expect FCA authorised firms to ensure this practice ceases and to carry out remediation. The review period for remediation begins from 25 June 2010 and the FCA expects all remediation programmes to be concluded by 30 June 2018.

The FCA have proposed a framework for remediation and in broad terms, the FCA expect Borrowers to be compensated for any incorrectly charged fees and interest and where fees have been paid by the customer, simple interest of 8% p.a. and simple interest of 8% on any "overpayments", i.e. any actual payments of monthly payments in excess of those which would have been required to pay off the arrears had there been no automatic capitalisation. Firms using the remediation framework will only reconstitute mortgage accounts where at least one automatic capitalisation resulted in an additional payment greater than £10 per month. Use of the framework is not mandatory, but the FCA expect firms to determine a remediation approach to achieve fair outcomes for the affected customers.

If any remediation is required or Borrowers bring claims in connection with their Loans in respect of an automatic capitalisation, such remediation and claims and any set-off by Borrowers in respect of such claims against the amount due by Borrowers under the relevant Loans, may adversely affect the ultimate amount received by the LLP in respect of the relevant Loans and the realisable value of the Portfolio and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

#### *12.11 Distance Marketing of Financial Services*

The Financial Services (Distance Marketing) Regulations 2004 apply to, amongst other things, credit agreements entered into on or after 31 October 2004 by a "consumer" within the meaning of the regulations 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 UK, will not be cancellable under these regulations but will be subject to related pre contract disclosure requirements in MCOB. Where the credit agreement is cancellable under these regulations, the Borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received or, if later, the date on which the Borrower receives the last of the prescribed information.

If the Borrower cancels the credit agreement under these regulations, then:

- the Borrower is liable to repay the principal, and any other sums paid by the originator 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 originator 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.

If a significant portion of the Loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the LLP's receipts in respect of the Loans, affecting the LLP's ability to make payments on the Covered Bond Guarantee.

#### *12.12 Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and the Consumer Rights Act 2015*

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 Regulation 1994 (together with the 1999 Regulations, (the **UTCCR**), applies to agreements made on or



after 1 July 1995 but prior to 1 October 2015 by a "consumer" within the meaning of the UTCCR), where the terms have not been individually negotiated. The Consumer Rights Act 2015 (the **CRA**) has revoked the UTCCR in respect of contracts made on or after 1 October 2015 (see the risk factor entitled "*Consumer Rights Act 2015*" below).

The UTCCR and the CRA provide that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the CRA as applicable and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term) and provide that a regulator may take action to stop the use of terms which are considered to be unfair.

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. The UTCCR may affect terms that are not considered to be terms which 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 Originators are 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 Issuer, 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 agreement that the Borrower has taken with the lender (or exercise analogous rights in Scotland). Any such non-recovery, claim or set-off may adversely affect the LLP's ability to make payments on the Covered Bond Guarantee.

On 12 January 2016, the FCA and the Competition and Markets Authority (the **CMA**) entered into a memorandum of understanding in relation to consumer protection (the **MoU**) which stated that the CMA may consider fairness, but will not usually expect to do so, where the firm concerned is an authorised firm or an authorised representative under FSMA. Further, the MoU stated that the FCA will consider fairness within the meaning of the CRA and the UTCCR, of standard terms, and the CRA of negotiated terms, in financial services contracts issued by authorised firms or appointed representatives, when such firms or representatives are undertaking any regulated activity (as specified in Part II of the RAO), in the United Kingdom. In this MoU 'authorised' includes having an interim permission and a 'relevant permission' includes an interim permission. This will include contracts for:

- mortgages and the selling of mortgages;
- insurance and the selling of insurance;
- bank, building society and credit union accounts;
- life assurance;
- pensions;
- investments;
- consumer credit;
- consumer hire; and
- other credit-related regulated activities.

MCOB rules for Regulated Mortgage Contracts require that: (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the Borrower being in arrears; and (b) from 25 June 2010, the Borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the Borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the Borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR (such statement has since been withdrawn - *see below*).

In July 2012, the Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law

Commission published its advice, in a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeated the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms which are indicatively unfair. The Law Commission also recommended that the UTCCR should expressly provide that, in proceedings brought by individual consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the Consumer Rights Act 2015, which came into force in October 2015.

Historically the OFT, FSA and FCA (as appropriate) have issued guidance on the UTCCR. This has included: (i) OFT guidance on fair terms for interest variation in mortgage contracts dated February 2000; (ii) an FSA statement of good practice on fairness of terms in consumer contracts dated May 2005; (iii) an FSA statement of good practice on mortgage exit administration fees dated January 2007; and (iv) FSA finalised guidance on unfair contract terms and improving standards in consumer contracts dated January 2012.

On 2 March 2015, the FCA updated its online unfair contract terms library by removing some of its material (including the abovementioned guidance) relating to unfair contract terms. The FCA stated that such material "no longer reflects the FCA's views on unfair contract terms" and that firms should no longer rely on the content of the documents that had been removed.

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 to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into between 1 July 1995 and 30 September 2015 is found to be unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee.

The FCA have stated that the finalised FCA guidance "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (see "*Consumer Rights Act 2015*" below) applies equally to factors that firms should consider to achieve fairness under the UTCCR.

### ***Consumer Rights Act 2015***

The main provisions of the CRA came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR for contracts entered into on or after 1 October 2015. The CRA has revoked the UTCCR in respect of contracts made on or after 1 October 2015 and introduced a new regime for dealing with unfair contractual terms as follows:

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends.

Schedule 2 of the CRA contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract although paragraph 22 of Schedule 2 provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A term of a consumer contract which is not on the “grey list” may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it, provided it is transparent and prominent.

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings have explicitly raised the issue of fairness.

The provisions in the CRA governing unfair contractual terms came into force on 1 October 2015. The Unfair Contract Terms Regulatory Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its formal powers under the CRA and the Competition and Markets Authority (the **CMA**) published guidance on the unfair terms provisions in the CRA on 31 July 2015 (the **CMA Guidance**). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR". The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs". In general, there is little reported case law on the UTCCR and/or the CRA and the interpretation of each is open to some doubt. The extremely broad and general wording of the CRA 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 to Borrowers covered by the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may reduce the amounts available to meet the payments due in respect of the Covered Bond Guarantee. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the LLP and/or the Servicer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Loans.

On 19 December 2018, the FCA published finalised guidance: “Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015” (FG18/7), outlining factors the FCA consider firms should have regard to when drafting and reviewing variation terms in consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The finalised guidance relates to all financial services consumer contracts entered into since 1 July 1995. The FCA stated that firms should consider both this guidance and any other rules that apply when they draft and use variation terms in their consumer contracts. The FCA stated that the finalised guidance will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts which contain variation terms.

The guidance issued by the FSA (and as of 1 April 2013, the FCA), the OFT and the CMA has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR and the CRA, or reform of the UTCCR and the CRA, will not have a material adverse effect on the Loans, the Seller, the LLP, the Servicer or their respective businesses and operations.

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

In May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) regarding 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, the Unfair Practices 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 Unfair Practices Directive. The Unfair Practices 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 has been implemented into UK law by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable but is a criminal offence punishable by a fine and/or imprisonment. The possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreements may result in irrecoverable losses on amounts to which such agreements apply. The CPUTR do not provide consumers with a private act of redress. Instead, consumers must rely on existing private law remedies based on the law of misrepresentation and duress. The Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) was laid before Parliament on 1 April 2014 and came into force on 1 October 2014. In certain circumstances, these amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing the relevant rules under the FSMA. For example, the MCOB rules, for Regulated Mortgage Contracts from 25 June 2010 prevent the lender from: (a) repossessing the mortgaged property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest-only for a period or an alternative product, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provided a transitional period until 12 June 2013 for the application of full harmonisation in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonisation in the fields of financial services and immovable property. No assurance can be given that the implementation of the Unfair Practices Directive into UK law and any further harmonisation will not have a material adverse effect on the Loans or the manner in which they are serviced and accordingly on the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

#### *12.14 Financial Ombudsman Service*

Under the FSMA, the Ombudsman is required to make decisions on complaints relating to the 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 law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code occurring before 31 October 2004 may be dealt with by the Ombudsman. Complaints properly 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.

#### *12.15 Devolution of taxing powers to the Scottish Parliament*

The Scotland Act 2016 passed control of certain aspects of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. The majority of the provisions should not have an adverse impact on the Scottish economy or on mortgage origination in Scotland, but it is possible that increased rates of income tax in Scotland could mean that some Borrowers' ability to pay amounts when due on the Loans originated in Scotland could be affected, and which, in turn, may adversely affect payments by the Issuer on the Covered Bonds. As a result of the most recent Scottish Budget, some Scottish taxpayers will be paying more income tax than taxpayers elsewhere in the UK (and some will be paying less) but the differences are not particularly significant.

#### *12.16 Home Owner and Tenant Protection*

Under Part I of the Home Owner and Debtor Protection (Scotland) Act 2010, a heritable creditor under a standard security over a residential property in Scotland has to obtain a court order to exercise its

power of sale, unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor has to demonstrate that it has taken various steps to resolve the borrower's position, and comply with further procedural requirements.

The Mortgage Repossessions (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order.

These Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

#### *12.17 Private Housing (Tenancies) (Scotland) Act 2016*

The Private Housing (Tenancies) (Scotland) Act 2016 came into force on 1 December 2017. One of the changes made by this legislation will be to introduce a new form of tenancy in Scotland known as a "private residential tenancy" which will (except in a very limited number of exceptions) provide tenants with security of tenure by restricting a landlord's ability to regain possession of the property to a number of specific eviction grounds. The intention is that private residential tenancies will replace assured and short assured tenancies in the future.

Many of the grounds for eviction will remain the same however it should be noted that the current ground of eviction based on "no fault", i.e. that the tenancy has simply reached its expiry date, has now been removed. There have also been changes to the notice periods required to be given by both landlord and tenant, based on the term of occupation by the tenant. Finally, certain areas may be designated "rent pressure zones" going forwards, and the effect of this is that any rent increases may be capped at a percentage level set by the Scottish Government. There is some concern that this may lead to an introduction of statutory control on rents in the future.

Accordingly, a lender or security-holder may not be able to obtain vacant possession if it wishes to enforce its security unless one of the specific eviction grounds under the legislation applies. It should be noted though that one of the grounds on which an eviction order can be sought is that a lender or security-holder intends to sell the property and requires the tenant to leave the property in order to dispose of it with vacant possession. The effect of this legislative change will primarily be restricted to any buy-to-let loans secured over Scottish Property. In the event of a dispute, a new tribunal has been created to deal with such matters.

The Private Housing (Tenancies) (Scotland) Act 2016 will not affect; holiday lets, social police or military housing or student accommodation that is either purpose built and/or provided by academic institutions.

The Pre-action Protocol and the above mentioned Acts may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may affect the ability of the LLP to make payments under the Covered Bond Guarantee.

#### *12.18 Land Registration Reform in Scotland*

The Land Registration etc (Scotland) Act 2012 (the **2012 Act**) came into force in Scotland on 8 December 2012 with the intention of encouraging the transfer of property titles recorded in the historic General Register of Sasines to the more recently established Land Register of Scotland with a view to eventually closing the General Register of Sasines. Some of the provisions of the 2012 have been implemented, including the requirement for all new standard securities to be registered at the Land Register of Scotland which would trigger a first registration in the Land Register of Scotland if a Scottish Sub-Security was taken over a standard security recorded in the General Register of Sasines.

However, proposals for assignments of standard securities recorded in the General Register of Sasines to be registered in the Land Register of Scotland have not been implemented and no date has been set for such a change. If it were to be implemented then this may lead to additional costs if the Scottish Loans were transferred to the LLP pursuant to the Mortgage Sale Agreement.

### *12.19 Mortgage repossession*

A pre-action protocol for mortgage possession cases in England and Wales (the Pre action Protocol) came into force on 19 November 2008, and a revised protocol for mortgage repossession cases in Northern Ireland came into force on 2 September 2011. Both protocols set 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 is subject to the wishes of the relevant borrower and may not apply in cases of fraud.

The MCOB from 25 June 2010 (formerly these were matters of non binding guidance) prevents, in relation to Regulated Mortgage Contracts: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term or a product switch and (b) automatically capitalising a payment shortfall or from 26 April 2014, automatically capitalising a payment shortfall where the impact would be material.

There can be no assurance that any delay in starting and/or completing repossession actions by the Seller would not result in the amounts recovered being less than if the Seller did not allow any such delays (which may ultimately affect the ability of the LLP to make payments in respect of the Covered Bond Guarantee). The protocol and MCOB requirements for mortgage possession cases may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Covered Bonds.

### *12.20 General*

No assurance can be given that additional regulations or guidance from the FCA, the PRA, the Ombudsman, the CMA or any other regulatory authority will not arise with regard to the mortgage market in the UK generally, the Originator's particular sector in that market or specifically in relation to the Originator. Any such action or developments or compliance costs may have a material adverse effect on the Loans, the Originator, 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.

### *12.21 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.

### *12.22 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 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 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 Authorities 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 Directive compliant.

The Authorities 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. The bodies which regulate the financial services industry in the UK, may take certain actions in respect of issuers using their 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 Authorities 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.

#### 12.23 *Departure of the UK from the European Union*

Due to the on-going political uncertainty as regards the terms of the UK's withdrawal from the European Union and the structure of the future relationship, it is not possible to determine the precise impact have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer or any other party to the Transaction Documents. For more information, see the risk factor entitled "*Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects*".

Prospective investors should also note that the regulatory position of the Covered Bonds may be affected as a result of provisions under the current regime which restrict the availability of preferential treatment (including with respect to investment limits, regulatory capital and liquidity standards) to covered bonds issued by a credit institution with its registered office in an EEA state. It is uncertain whether such preferential treatment will remain available in respect of the Covered Bonds following the departure of the UK from the European Union and this will depend in part on the terms of the UK's exit. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the Arranger or the Dealers makes any representation to any prospective investor regarding the regulatory treatment of their investment at the time of investment or at any time in the future.

#### 12.24 *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 Priority 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*.

#### 12.25 *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, Energy and Industrial Strategy 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, Energy and Industrial Strategy 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.

Furthermore, certain of the Issuer's Liabilities will be preferred by law in the event of its winding-up.

#### 12.26 *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 of 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).

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.

#### 12.27 *U.S. insolvency proceedings and subordinated provisions*

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a swap counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty (so-called "flip clauses"). Such provisions are similar in effect to the terms which will be included in the Transaction Documents relating to the Priority of Payments.

The English Supreme Court held in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc.* [2011] UKSC 38 (the **Belmont decision**) that a flip clause as described above is valid under English law. Contrary to this, however, the U.S. Bankruptcy Court has held that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. However, a subsequent U.S. Bankruptcy Court decision held that flip clauses are protected under the Bankruptcy code and therefore enforceable on bankruptcy. This decision was affirmed on March 14, 2018 by the U.S. District Court. The implications of these conflicting judgments remain unresolved.

If a creditor of the Issuer (such as a swap counterparty or a related entity) becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of the contractual subordination provisions included in the English law governed Transaction Documents such as a provision of the Priority of Payments which refers to the ranking of the swap counterparties' payment rights in respect of subordinated termination payments. In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such contractual subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as swap counterparty, including U.S. established entities and certain non-U.S. established entities with assets or operations in the U.S. (although the scope of any such proceedings may be limited if the relevant non-U.S. entity is a bank with a licensed branch in a U.S. state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Covered Bondholders, the market value of the Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents will include terms providing for the subordination of termination payments, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Covered Bonds. If any rating assigned to the Covered Bonds is lowered, put on negative credit watch or withdrawn, the market value of the Covered Bonds may be reduced.

12.28 *Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or liquidity associated with a holding of the Covered Bonds for certain investors*

In Europe, the U.S. and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer, the LLP, the Lead Managers or the Arranger makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the closing date or at any time in the future.

In particular, it should be noted that the Basel Committee on Banking Supervision (**BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the **Liquidity Coverage Ratio** and the **Net Stable Funding Ratio**).

The BCBS published a package of further revisions to Basel III in December 2017 known as Basel IV, including changes to: standardised approach for credit risk, internal ratings based approaches for credit risk, the credit valuation adjustment risk framework, the operational risk framework, the leverage ratio framework, and a revised output floor. The BCBS expects these changes to be implemented from January 2022, with transitional arrangements up to January 2027, although these timelines remain unclear until such rules are translated into draft European legislation.

As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the framework of Directive 2009/138/EC (**Solvency II**) in Europe.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

12.29 *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.

12.30 *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. The LLP may be treated as connected to one or more employers under an occupational pension scheme which is within Lloyds Bank Group.

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act: (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b)

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) otherwise than in good faith, 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.

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 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.

As a result of the Supreme Court decision in *Re Nortel, Re Lehman Companies* [2013] UKSC 52, if the Pensions Regulator issued a financial support direction or contribution notice against the LLP then, depending on when such a direction or notice was issued (and regardless of whether the LLP was in liquidation or administration, as the case may be, at that time), any corresponding liability would not be treated as an expense of the administration or liquidation (as the case may be). As a result, such a claim would be treated as an ordinary unsecured debt and such claim would not rank in priority to, or *pari passu* with, the rights and claims of the Security Trustee under the Deed of Charge with respect to any charged asset.

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.

#### 12.31 *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 or the ability of the Issuer to make payments in respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### 12.32 *Changes or uncertainty in respect of LIBOR, EURIBOR and/or BBSW, and/or other interest rate benchmarks may affect the value or payment of interest under the Mortgage Loans or the Covered Bonds*

Various interest rate benchmarks (including the London Inter-Bank Offered Rate (**LIBOR**)), the Euro Interbank Offered Rate (**EURIBOR**) and the Bank Bill Swap Rate (**BBSW**), are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented including the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the **Benchmark Regulation**)) whilst others are still to be implemented. In Australia, examples of reforms that are already effective include the replacement of the Australian Financial Markets Association as BBSW administrator with ASX Limited, changes to the methodology for calculation of BBSW, and amendments to the Corporations Act made by the Treasury Laws Amendment (2017 Measures No. 5) Act 2018 of Australia which, among other things, enables ASIC to make rules relating to the generation and administration of financial benchmarks. On 6 June 2018, ASIC designated BBSW as a "significant financial benchmark" and made the ASIC Financial Benchmark (Administration) Rules 2018 and the ASIC Financial Benchmarks (Compelled) Rules 2018.

Under the Benchmarks Regulation, which applies from 1 January 2018 in general, certain requirements apply with respect to the provision of a wide range of benchmarks (including LIBOR, and EURIBOR), the contribution of input data to a benchmark and the use of a benchmark within the European Union. In particular, the Benchmarks Regulation, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of benchmarks and (ii) prevents certain uses by EU-supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU-based, deemed equivalent or recognised or endorsed).

In addition, the sustainability of LIBOR has been questioned by the UK Financial Conduct Authority as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority (FCA) confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (**SONIA**) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**ESTER**) as the new risk free rate. ESTER is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

These reforms and other pressures may cause one or more interest rate benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Covered Bonds.

Based on the foregoing, prospective investors should in particular be aware that:

- (a) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR, EURIBOR, BBSW, SONIA and SOFR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be; and
- (b) if LIBOR or EURIBOR or BBSW or SONIA or SOFR is discontinued or is otherwise unavailable, then:
  - (A) the rate of interest on the Loans may be determined for a period by any applicable fall-back provisions under the relevant Loan documentation, although such provisions may not operate as intended (depending on market circumstances and the availability of rates information at the time); and
  - (B) in circumstances where an amendment as described in paragraph (c) below has not been made at the relevant time, the rate of interest on the Covered Bonds will be determined for a period by the fall-back provisions provided for under Condition 4.2 (*Interest on Floating Rate Covered Bonds*) of the Terms and Conditions of the

Covered Bonds, although such provisions, being dependent in part upon the provision by reference banks of offered quotations for leading banks in the London interbank market (in the case of LIBOR) or in the Euro-zone interbank market (in the case of EURIBOR) or, in respect of A\$ Registered Covered Bonds, in the Australian interbank market (in the case of BBSW), may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR, EURIBOR or BBSW was available;

- (c) while an amendment may be made under Condition 14.2(d) (*Meetings of Covered Bondholders, Modification and Waiver*) of the Terms and Conditions of the Covered Bonds to change the base rate on the Floating Rate Covered Bonds from LIBOR or EURIBOR or BBSW or SONIA or SOFR to an alternative base rate under certain circumstances broadly related to LIBOR or EURIBOR or BBSW or SONIA or SOFR dysfunction or discontinuation and subject to certain conditions being satisfied including with respect to Covered Bondholder consent in part (in this regard, please also refer to the risk factor above entitled “*Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Trustee in writing*”), there can be no assurance that any such amendment will be made or, if made, that it (i) will fully or effectively mitigate all relevant interest rate risks or result in an equivalent methodology for determining the interest rates on the Floating Rate Covered Bonds or (ii) will be made prior to any date on which any of the risks described in this risk factor may become relevant (in this regard, please also refer to the risk factor above entitled “*Covered Bondholders will be deemed to have consented to certain modifications to the Transaction Documents so long as at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds have not contacted the Trustee in writing*”); and
- (d) if LIBOR, EURIBOR, BBSW, SONIA, SOFR or any other relevant interest rate benchmark is discontinued, and whether or not an amendment is made under Condition 14.2(d) (*Meetings of Covered Bondholders, Modification and Waiver*) to change the base rate with respect to the Floating Rate Covered Bonds as described in paragraph (c) above, there can be no assurance that the applicable fall-back provisions under the Swap Agreements would operate to allow the transactions under the Hedging Agreements to effectively mitigate interest rate risk in respect of the Covered Bonds.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Mortgage Loans, the Covered Bonds and/or the Swap Agreements due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction in the amounts available to the Issuer to meet its payment obligations in respect of the Covered Bonds.

Moreover, any of the above matters (including an amendment to change the base rate as described in paragraph (c) above) or any other significant change to the setting or existence of LIBOR, EURIBOR, BBSW or any other relevant interest rate benchmark could affect the ability of the Issuer or the LLP to meet its obligations under the Covered Bonds and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Covered Bonds. Changes in the manner of administration of LIBOR, EURIBOR, BBSW or any other relevant interest rate benchmark could result in adjustment to the Conditions, early redemption, discretionary valuation by the Calculation Agent, delisting or other consequences in relation to the Covered Bonds. No assurance may be provided that relevant changes will not occur with respect to LIBOR, EURIBOR, BBSW or any other relevant interest rate benchmark and/or that such benchmarks will continue to exist. Investors should consider these matters when making their investment decision with respect to the Covered Bonds.

### 12.33 *The market continues to develop in relation to risk free rates (including overnight rates) as reference rates for Floating Rate Covered Bonds*

Investors should be aware that the market continues to develop in relation to SONIA and SOFR as a reference rate in the capital markets and its adoption as an alternative to the relevant interbank offered rates LIBOR. In addition, market participants and relevant working groups are exploring alternative

reference rates based on risk free rates, including term SONIA and SOFR reference rates (which seek to measure the market's forward expectation of an average SONIA or SOFR rate over a designated term). The market or a significant part thereof may adopt an application of risk free rates that differs significantly from that set out in the Conditions and used in relation to In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Floating Rate Covered Bonds that reference a risk free rate issued under this Prospectus. Interest on Covered Bonds which reference a risk free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds reference such risk free rates to reliably estimate the amount of interest which will be payable on such Covered Bonds. Further, if the Floating Rate Covered Bonds become due and payable under Condition 9, the Rate of Interest payable shall be determined on the date the Covered Bonds became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such Floating Rate Covered Bonds.

#### *12.34 Harmonisation of the EU covered bond framework*

It should be noted that on 12 March 2018, the European Commission adopted legislative proposals for a more harmonised EU covered bond framework. The proposals are made up of a draft directive (replacing current Article 52(4) of the UCITS Directive) and intended to establish a revised base-line definition of covered bonds for EU regulatory purposes; and a draft regulation (amending Article 129 of the EU Capital Requirements Regulation and certain related provisions) intended to strengthen the requirements for covered bonds to receive preferential capital treatment. Helpfully, the draft directive provides for permanent grandfathering with respect to certain requirements for article 52(4) UCITS Directive-compliant covered bonds issued before the relevant application date, although a similar provision included in the draft amending regulation does not seem to provide for the full necessary adjustment. The proposals are now subject to the usual EU legislative process. As a result, the final position, including the date of entry into force and the date of application of the new regime (aspects of which will require transposition by member states through national laws) are not yet known. Therefore, until the EU legislative process has been finalised and the proposals are available in their final form, it is uncertain if or how the prospects will affect the Issuer, the LLP, the markets for Covered Bonds in general and/or the Covered Bonds.

## 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 and A\$ Registered Covered Bonds will be issued outside the U.S. in reliance on Regulation S and Registered Covered Bonds may be issued both outside the U.S. in reliance on Regulation S and within the U.S. in reliance on Rule 144A 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 U.S. 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 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 Permanent Global Covered Bonds and Bearer Definitive Covered Bonds that have an original maturity of more than one year and on all receipts and interest coupons relating to such Permanent Global Covered Bonds and Bearer Definitive 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 U.S. 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 U.S. 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 (or for the account or benefit of other QIBs) 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. 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, such as DTC. 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 (*Payments in respect of Registered Covered Bonds*)) 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 depositary 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 Depositary 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.\$200,000 (and no less than the equivalent of €100,000) and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency).

### **A\$ Registered Covered Bonds**

The A\$ Registered Covered Bonds are issued in registered form by an entry in the A\$ Register maintained by the Australian Registrar.

Entry of the name of the holder in the A\$ Register in respect of an A\$ Registered Covered Bond constitutes the obtaining or passing of title and is conclusive evidence that the person entered is the registered holder of the A\$ Registered Covered Bonds. A\$ Registered Covered Bonds which are held in the Austraclear System will be registered in the name of Austraclear Ltd (ABN 94 002 060 773). No certificate or other evidence of title will be issued to holders of the A\$ Registered Covered Bonds unless the Issuer determines that certificates should be available or it is required to do so pursuant to any applicable law or regulation.

### **Transfer of Interests**

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond with written certification from the transferor in accordance with the provisions of the Agency Agreement. 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.

Transfers of interest in A\$ Registered Covered Bonds held in the Austraclear System may be conducted only in accordance with Austraclear Regulations and the Australian Deed Poll.

Registered Covered Bonds and A\$ 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, Clearstream, Luxembourg and/or the Austraclear System 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.

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and the Conditions of the Covered Bonds, in which case (if such Covered Bonds are intended to be listed) a new Prospectus will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Issuer will notify the ICSDs and the Paying Agents upon issue whether the Covered Bonds are intended, or are not intended, to be held in a manner which would allow Eurosystem eligibility and deposited with one of the ICSDs as Common Safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper). Where the Covered Bonds are not intended to be deposited with one of the ICSDs as Common Safekeeper upon issuance, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting such criteria, the Covered Bonds may then be deposited with one of the ICSDs as Common Safekeeper. Where the Covered Bonds are so deposited with one of the ICSDs as Common Safekeeper (and in the case of registered Covered Bonds, registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper) upon issuance or otherwise, this 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 at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

## FORM OF FINAL TERMS

[Date]

**Lloyds Bank plc**

**Legal entity identifier (LEI): H7FNTJ4851HG0EXQ1Z70**

**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 Bank Covered Bonds LLP  
under the €[60] billion  
Global Covered Bond Programme**

**MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended or superseded, **MiFID II**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**IMPORTANT - PROHIBITION OF SALES TO EEA RETAIL INVESTORS:** The Covered Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended or superseded, the **PRIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

[Neither the Issuer nor the LLP is a bank nor an authorised deposit-taking institution which is authorised under the Banking Act 1959 (Cth) of Australia (the **Australian Banking Act**) nor are either of them authorised to carry on banking business under the Australian Banking Act. The Covered Bonds are not obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia. Neither the Issuer nor the LLP is supervised by the Australian Prudential Regulation Authority. Covered Bonds that are offered for issue or sale or transferred in, or into, Australia are offered only in circumstances that would not require disclosure to investors under Parts 6D.2 or Part 7.9 of the Corporations Act 2001 of Australia (**Corporations Act**) and issued and transferred in compliance with the terms of the exemption from compliance with section 66 of the Australian Banking Act that is available to the Issuer. Such Covered Bonds are issued or transferred in, or into, Australia in parcels of not less than A\$500,000 in aggregate principal amount. An investment in any Covered Bonds issued by the Issuer will not be covered by the depositor protection provisions in section 13A of the Australian Banking Act and will not entitle Covered Bondholders to claim under the financial claims scheme under Division 2AA of the Australian Banking Act.]

**[SINGAPORE SFA PRODUCT CLASSIFICATION:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Covered Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]<sup>1</sup>

<sup>1</sup> For any Covered Bonds to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Covered Bonds pursuant to Section 309B of the SFA prior to the launch of the offer.

## 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 [●] which constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended or superseded, which includes the amendments made by Directive 2010/73/EU to the effect that such amendments have been implemented in a relevant Member State) (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. 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 [and the supplemental Prospectus dated [date]]. The Prospectus is available for viewing at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN.

[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 [●] which are incorporated by reference into the Prospectus dated [●] which constitute[s] a base [prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC) (as amended or superseded, which includes the amendments made by Directive 2010/73/EU to the effect that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**) to the extent that such amendments have been implemented in a Member State). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Directive and must be read in conjunction with the Prospectus. 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 dated [current date] [and the supplemental Prospectus dated [date]]. Copies of the Prospectus are available for viewing at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds Bank plc, 25 Gresham Street, London EC2V 7HN.]

- |    |       |  |   |
|----|-------|--|---|
| 1. | (i)   | Issuer:  | Lloyds Bank plc   |
|    | (ii)  | LLP:   | Lloyds Bank Covered Bonds LLP   |
| 2. | (i)   | Series Number:   | [●]   |
|    | (ii)  | Tranche Number:  | [●]   |
|    | (iii) | Series which Covered Bonds will be consolidated and form a single Series with:                                 | [●]/[Not Applicable]  |
|    | (iv)  | Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above; | [●]/[Issue Date]/[Not Applicable]   |
| 3. |       | Specified Currency or Currencies:  | [●]   |
| 4. |       | Aggregate Amount of Covered Bonds to be issued:  | [●]   |
| 5. |       | Aggregate Nominal Amount of Covered Bonds admitted to trading:   | [●]   |
|    | (i)   | Series:  | [●]   |
|    | (ii)  | Tranche:   | [●]   |
| 6. |       | Issue Price:   | [●] per cent. of the aggregate nominal amount [plus accrued interest from [●]   |
| 7. | (i)   | Specified Denominations:   | [●]/ [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000]]/ At least [\$200,000 (and no less than the equivalent of €100,000) and integral multiples of \$1,000 in excess thereof (or the |

- U.S. Dollar equivalent for Rule 144A Covered Bonds issued in a currency other than U.S. Dollars)].
- (ii) Calculation Amount: [●]
8. (i) Issue Date: [●]  
(ii) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]  
(i) A\$ Record Date: [●]/[Not Applicable]
9. (i) Final Maturity Date: [●]/[Interest Payment Date falling in or nearest to [●]]  
(ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [●]/Interest Payment Date falling in or nearest to [●]/[Not Applicable]
10. Interest Basis: [[●] per cent. Fixed Rate]  
[[SOFR]/[SONIA]/[[●] [[●] LIBOR]/[EURIBOR]/BBSW Rate] [[+/-] [●] per cent.] Floating Rate]  
[Zero Coupon Covered Bond]
11. Redemption/Payment Basis: [100] per cent. of the nominal value
12. Change of Interest or Redemption/Payment Basis: [●]/[in accordance with paragraphs 16 and 17 below]
13. Put/Call Options: [Investor Put Option]/[Issuer Call Option]/[Not Applicable]
14. [Date [Board] approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: [●] [and [●], respectively]]
15. Listing: London

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

16. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]
- (i) [Fixed Rate(s) of Interest: [●] per cent. per annum payable in arrear on each Interest Payment Date]
- (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]/(provided however that [after the Extension Determination Date, the Interest Payment Date shall be [monthly]])]
- (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iv) Business Day(s): [●]
- (v) Additional Business Centre(s): [●]/ [Not Applicable]
- (vi) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (vii) Initial Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]/[Not Applicable]
- (viii) Final Broken Amount: [●]

- (ix) Day Count Fraction: [●]
- (x) Determination Dates: [●] in each year/[Not Applicable]
17. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Date(s): [●] (provided however that [prior to the Extension Determination Date,][the Specified Interest Payment Date shall be no more frequent than quarterly][, and provided further that] [after the Extension Determination Date, the Interest Payment Date shall be [monthly][quarterly]]) The first Interest Payment Date shall be [●].
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s): [●]/ [Not Applicable]
- (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/BBSW Determination]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent): [●]/[Australian Calculation Agent]
- (vi) Screen Rate Determination: [Applicable – Term Rate/Applicable – Overnight Rate/Not Applicable]
- Calculation Method [Weighted Average/Compounded Daily]
  - Reference Rate: [SOFR]/[SONIA]/[[●]-month] [[●] LIBOR]/[EURIBOR][BBSW]
  - Relevant Financial Centre: [London/Brussels/Stockholm/Hong Kong/Singapore/Tokyo/New York/Luxembourg/Frankfurt/Sydney]
  - Interest Determination Date(s): [[●] [TARGET/[●]] Business Days [in [●]] prior to the [●] day in each Interest Accrual Period/each Interest Payment Date][[●] Business Day prior to the end of each Interest Period] [●]
  - Relevant Screen Page: [[●]/Not Applicable]
  - Relevant Time: [●]
  - Observation Method: [Lag/Lock-out]
  - Observation Look-back Period: [[●]/Not Applicable]
  - D [365/360][●]
- (vii) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (viii) BBSW Determination: [Applicable/Not Applicable]
- Relevant Financial Centre: [Sydney]
  - Interest Determination Date(s): [●]
- (ix) Margin(s): [+/-][●] per cent. per annum

- (x) Minimum Rate of Interest: [●] per cent. per annum
- (xi) Maximum Rate of Interest: [●] per cent. per annum
- (xii) Day Count Fraction: [Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
360/360  
30E/360  
Eurobond Basis  
30/360 (ISDA)  
RBA Bond Basis or Australian Bond Basis]
18. **Zero Coupon Covered Bond Provisions** [Applicable/Not Applicable]
- Accrual Yield: [●] per cent. per annum
- Reference Price: [●]
- (i) Business Day Convention: [Following Business Day Convention/Modified  
Following Business Day Convention/Preceding  
Business Day Convention]
- (ii) Business Day(s): [●]  
Additional Business Centre(s): [●]/ [Not Applicable]
- (iii) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*) and 6.7(b) (*Early Redemption Amounts*) apply]

#### PROVISIONS RELATING TO REDEMPTION

19. **Issuer Call Option** [Applicable/Not Applicable]
- (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: [●]
20. **Investor Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●] per Calculation Amount
21. **Final Redemption Amount** [Nominal Amount/[●] per Calculation Amount]
22. **Early Redemption Amount**
- Early Redemption Amount(s) payable on redemption for taxation reasons or on acceleration following an Issuer Event of Default or an LLP Event of Default: [●] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23. **Form of Covered Bonds**

[Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Bearer Definitive Covered Bonds in definitive form after an Exchange Event

[Temporary Global Covered Bond exchangeable for Bearer Definitive Covered Bonds only after an Exchange Event]

[Permanent Global Covered Bond exchangeable for Bearer Definitive Covered Bonds after an Exchange Event

[Registered Covered Bonds:

[Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [[DTC/ a common depository for Euroclear and Clearstream, Luxembourg]] (that is held under the New Safekeeping Structure /Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for [DTC/a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Covered Bond (specify nominal amounts))

[A\$ Registered Covered Bond [registered in the name of Austraclear in the Austraclear System]/[●].]

24. New Global Covered Bond:

[Yes][No]

25. Additional Financial Centre(s) or other special provisions relating to payment dates:

[Not Applicable]

26. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):

[Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made /No.]

27. Details relating to Instalment Covered Bonds:

Instalment Amount(s):

[Not Applicable/●]

Instalment Date(s):

[Not Applicable/●]

28. Redenomination:

[Not Applicable/The provisions in Condition [●] apply]

Signed on behalf of Lloyds Bank plc

Signed on behalf of Lloyds Bank Covered Bonds LLP

By:

By:



Duly authorised

Duly authorised

## PART B — OTHER INFORMATION

### 1. LISTING

- |      |   |  |
|------|---|--|
| (i)  | Admission to trading:                                       | Application [is expected to/has] been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the London Stock Exchange's regulated market and to the Official List of the FCA with effect from [●] |
| (ii) | Estimate of total expenses related to admission to trading: | [●]  |

### 2. RATINGS

- |          |   |
|----------|---|
| Ratings: | The Covered Bonds to be issued have been initially rated:<br><br>Fitch: [●]<br><br>Moody's: [●] |
|----------|---|

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

[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 issue of the Covered Bonds has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged and may in the future engage in investment banking and/or commercial banking transactions with and may perform other services for the Issuer and/or the LLP and/or it or their affiliates in the ordinary course of business.]

### 4. OPERATIONAL INFORMATION:

- |       |  |   |
|-------|--|---|
| (i)   | ISIN:  | [●]   |
| (ii)  | Common Code:   | [●]   |
| (iii) | CFI Code:  | [[●], [as updated,][as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]  |
| (iv)  | FISN:  | [[●], [as updated,][as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]  |
| (v)   | [(Insert here any other relevant codes such as CUSIP AND CINS codes):  | [Not Applicable/give name(s) and number(s)]   |
| (vi)  | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | [Not Applicable/Austraclear Limited, Level 4, 20 Bridge St, Sydney NSW 2000/[●][insert address]]  |
| (vii) | Intended to be held in a manner which would allow Eurosystem eligibility:  | [Yes. 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 registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][include this text for Registered Covered Bonds] and does not necessarily mean that the |

Covered Bonds will be recognized 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 the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)] [include this text for Registered Covered Bonds]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

5. **YIELD (Fixed Rate Covered Bonds only)**

[●]

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.

6. **RELEVANT BENCHMARKS**

[[*Specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [*administrator legal name*] [appears] / [does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation] / [As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the Benchmark Regulation] / [Not Applicable].

## TERMS AND CONDITIONS OF THE COVERED BONDS

*With the exception of the N Covered Bonds, the following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into and apply to each A\$ Registered Covered Bond, 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 (or the relevant provisions thereof) will be entered in the A\$ Register (as defined below) in respect of each A\$ Registered Covered Bond or 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, in the case of Covered Bonds other than A\$ Registered Covered Bonds, a trust deed dated 20 October 2008 (as supplemented by a first supplemental trust deed on 18 December 2008, by a second supplemental trust deed on 11 January 2010, by a third supplemental trust deed on 24 June 2010, a fourth supplemental trust deed on 7 August 2010, a fifth supplemental trust deed on 8 November 2010, a sixth supplemental trust deed on 7 June 2013, a seventh supplemental trust deed on 22 July 2013, an eighth supplemental trust deed dated 7 April 2014, a ninth supplemental trust deed dated 31 March 2016, a tenth supplemental trust deed dated 30 March 2017, as supplemented by an eleventh supplemental trust deed dated on or about 17 April 2018 and as supplemented by an twelfth supplemental trust deed dated on or about 2 August 2018) 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 Bank plc (the **Issuer**), Lloyds Bank Covered Bonds LLP (the **LLP**) and BNY Mellon 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). A\$ Registered Covered Bonds are constituted by a deed poll dated 8 May 2019 made by the Issuer (such deed poll as modified and/or supplemented and/or restated from time to time, the **Australian Deed Poll**) in favour of The Bank of New York Mellon, London Branch (the **Australian Bond Trustee**) and the Covered Bondholders in respect of A\$ Registered Covered Bonds. These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge and the Agency Agreement, which includes (amongst other things) the form of the Bearer Covered Bonds, Receipts, Coupons and Talons referred to below and, in the case of A\$ Registered Covered Bonds, the Australian Deed Poll.

An Agency Agreement dated 20 October 2008 as amended and restated on 8 November 2010, 7 June 2013, 7 April 2014, 19 June 2015, 31 March 2016 and 17 April 2018 (as modified and/or supplemented and/or restated from time to time, including as supplemented by the Australian Agency Agreement (as defined below)) 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 SA/NV, Luxembourg Branch as registrar and The Bank of New York Mellon as principal paying agent and the other agents named in it and supplemented in relation to the A\$ Registered Covered Bonds by a supplemental agency agreement dated 8 May 2019 between the Issuer, the LLP and BTA Institutional Services Australia Limited (ABN 48 002 916 396) as paying agent (the **Australian Paying Agent**), as registrar (the **Australian Registrar**) and as calculation agent (the **Australian Calculation Agent**) in relation to the A\$ Registered Covered Bonds (as modified and/or restated from time to time, the **Australian Agency Agreement**). The principal paying 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 or, in the case of A\$ Registered Covered Bonds, the Australian 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)** (which expression shall, where the context so permits in the case of A\$ Registered Covered Bonds, include the Australian Calculation Agent). 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. The original Australian Deed Poll and copies of the Trust Deed and the Agency Agreement (including the Australian Agency Agreement) are available for inspection free of charge during usual business hours at the registered office of the Australian 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;
- (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) ; and
- (e) any A\$ Registered Covered Bonds.

The Final Terms for the Covered Bonds (or the relevant provisions thereof) attached to this Covered Bond supplements these Terms and Conditions (the **Terms and Conditions**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) endorsed on or attached to this Covered Bond or entered in the register of holders of the A\$ Registered Covered Bonds maintained by the Australian Registrar (the **A\$ Register**).

The Bond Trustee (or the Australian Bond Trustee in respect of A\$ Registered Covered Bonds) 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.

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 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.

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.

## **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** or an **A\$ Registered Covered Bond**, as applicable) 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 or A\$ Registered Covered Bonds and *vice versa*.

This Covered Bond may be denominated in any Specified Currency.

Subject to confirmation from each of the Rating Agencies prior to the issuance of this Covered Bond that the then current rating of any outstanding Series of Covered Bonds will not be adversely affected by the issuance of this Covered Bond, this Covered Bond may, depending upon the Interest Basis shown in the applicable Final Terms, be a Fixed Rate Covered Bond, a Floating Rate Covered Bond or a Zero Coupon Covered Bond or a combination of any of the foregoing and may be an Instalment Covered Bond.

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, title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement and title to the A\$ Registered Covered Bonds will pass upon registration of transfers in respect of A\$ Registered Covered Bonds, in accordance with these Terms and Conditions. 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 or A\$ 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.

For so long as any of the A\$ Registered Covered Bonds are lodged in the clearance and settlement system operated by Austraclear Ltd ABN 94 002 060 773 (Austraclear and such system being the Austraclear System) in accordance with the regulations and procedures established by Austraclear to govern the use of the Austraclear System (such regulations and procedures being the Austraclear Regulations) each person (other than Austraclear) who is for the time being shown in the records of Austraclear as the holder of such A\$ Registered Covered Bonds (in which regard any certificate or other document issued by Austraclear or the Australian Registrar as to such A\$ Registered Covered Bonds standing to the account of any person will 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 Austraclear or the Australian Registrar in accordance with its usual procedures and in which the holder of the A\$ Registered Covered Bonds is clearly identified with the amount of such holding) will (except as otherwise permitted in the Trust Deed and these Terms and Conditions or as ordered by a court of a competent jurisdiction or as required by applicable law or regulations) be treated by the Issuer, the LLP, the Paying Agents, the Security Trustee and the Australian Bond Trustee as the holder of such A\$ Registered Covered Bonds for all purposes other than with respect to the payment of principal or interest or other amounts of such A\$ Registered Covered Bonds or for the purpose of voting, giving consents and making requests in relation to such A\$ Registered Covered Bonds and the expression Covered Bondholder and related expressions will be construed accordingly. For so long as any of the A\$ Registered Covered Bonds are lodged in the Austraclear System, beneficial interests in A\$ Registered Covered Bonds will be transferable only in accordance with the Austraclear Regulations. Where Austraclear is recorded in the A\$ Register as the holder of an A\$ Registered Covered Bond, each person in whose Security Record (as defined in the Austraclear Regulations) an A\$ Registered Covered Bond is recorded is deemed to acknowledge in favour of the Australian Registrar, the Issuer and Austraclear that:

- (i) the Australian Registrar's decision to act as the registrar of that A\$ Registered Covered Bond is not a recommendation or endorsement by the Australian Registrar or Austraclear in relation to that A\$ Registered Covered Bond, but only indicates that the Australian Registrar considers that the holding of the A\$ Registered Covered Bonds is compatible with the performance by it of its obligations as Australian Registrar under the Australian Agency Agreement; and
- (ii) the holder of the A\$ Registered Covered Bond does not rely on any fact, matter or circumstance contrary to paragraph (i).

References to Euroclear, Clearstream, Luxembourg, the Austraclear System 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.

## **2. Transfers of Registered Covered Bonds and A\$ 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(d) (*Registration of transfer upon partial redemption*), 2(e) *Costs of registration*, 2(f) (*Transfers of interests in Regulation S Global Covered Bonds in the United States or to U.S. persons*) and 2(g) (*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) *Transfers of A\$ Registered Covered Bonds*

Title to the A\$ Registered Covered Bonds passes when details of the transfer are entered in the A\$ Register. The A\$ Register will be closed for the purpose of determining entitlements to payments of interest and principal at 5.00pm in the place where the A\$ Register is kept on the eighth calendar day before the relevant date for payment, or such other date specified in or determined in accordance with the applicable Final Terms for that purpose (the **A\$ Record Date**).

A\$ Registered Covered Bonds may be transferred in whole but not in part. Application for the transfer of A\$ Registered Covered Bonds not entered into the Austraclear System or any alternative clearing system must be made by the lodgement of a transfer form with the Australian Registrar at its specified office. Each transfer form must be duly completed, accompanied by any evidence the Australian Registrar may require to establish that the transfer form has been duly executed and signed by the transferor and the transferee.



If a Covered Bondholder transfers some but not all of the Covered Bonds it holds and the transfer form does not identify the specific Covered Bonds transferred, the Australian Registrar may choose which Covered Bonds registered in the name of the Covered Bondholder have been transferred. However, the Principal Amount Outstanding of the Covered Bonds registered as transferred must equal the Principal Amount Outstanding of the Covered Bonds expressed to be transferred in the transfer form.

For so long as any of the A\$ Registered Covered Bonds are lodged in the Austraclear System, beneficial interests in A\$ Registered Covered Bonds will be transferable only in accordance with the Austraclear Regulations.

A\$ Registered Covered Bonds may only be transferred if:

- (i) in the case of A\$ Registered Covered Bonds to be transferred in, or into, Australia (A) the offer or invitation giving rise to the transfer is for an aggregate consideration of at least A\$500,000 (or its equivalent in an alternative currency, and in either case, disregarding monies lent by the transferor or its associates to the transferee) or does not otherwise require disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act 2001 of Australia (the **Corporations Act**); and (B) the transferee is not a “retail client” as defined in section 761G of the Corporations Act; and (C) the transfer complies with Banking exemption No. 1 dated 21 March 2018 promulgated by the Australian Prudential Regulation Authority as if it applied to the Issuer *mutatis mutandis* (and which, unless otherwise specified in the Final Terms, requires all offers and transfers of any parcels of A\$ Registered Covered Bonds to be for an aggregate principal amount of not less than A\$500,000); and
- (ii) at all times, the transfer is in compliance with all applicable laws, regulations or directives (including, without limitation, the laws of the jurisdiction in which the transfer takes place).

(d) *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 A\$ Registered Covered Bond, or part of a Registered Covered Bond or A\$ Registered Covered Bond, called for partial redemption.

(e) *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, the Australian Registrar, any Registrar or any 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.

(f) *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.

(g) *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 and/or the Australian Bond Trustee (as applicable) 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, the Australian Bond Trustee (as applicable) 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 4.5 (*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 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 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) but subject to Condition 4.4 (*Accrual of interest*)) of the Fixed Rate Covered Bonds represented by such Global Covered Bond; (ii) in the case of Fixed Rate Covered Bonds which are A\$ Registered Covered Bonds, the Principal Amount Outstanding (as defined in Condition 4.5 (*Business Day, Business Day Convention, Day Count Fractions and other adjustments*)) but subject to Condition 4.4 (*Accrual of interest*)) of the A\$ Registered Covered Bond; or (iii) 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 4.5 (*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 4.5 (*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*

(a) *Interest Payment Dates*

Each Floating Rate 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 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 or, in respect of the A\$ Registered Covered Bonds, the Australian Calculation Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or Australian Calculation Agent (as the case may be) 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, if the applicable Floating Rate Option is based on LIBOR or EURIBOR for a currency or the Australian Bank Bill Swap Rate (**BBSW**), 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*

(I) If “Applicable – Term Rate” is specified as the method of Screen Rate Determination in the applicable Final Terms, 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. (Relevant Financial Centre Time) 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.

If the Relevant Screen Page is not available or if, in the case of Condition 4.2(b)(ii)I(A), no offered quotation appears or if, in the case of Condition 4.2(b)(ii)I(B), fewer than three offered quotations appear, in each case as at the

Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the paragraph above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Clause, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

#### ***SONIA and SOFR***

- (II) If “Applicable – Overnight Rate” is specified as the method of Screen Rate Determination in the applicable Final Terms:
  - (i) where the Calculation Method in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being “Compounded Daily”, the Rate of Interest for each Interest Accrual Period will, subject to Condition 14.2(d), and as provided below, be the Compounded Daily Reference Rate plus or minus (as indicated in the applicable Final Terms) the Margin, where:

**Compounded Daily Reference Rate** means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate (as indicated in the applicable Final Terms and further provided for below) as the reference rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{r_i - pBD \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

**D** is the number specified in the applicable Final Terms;

**d** is the number of calendar days in the relevant Interest Accrual Period;

**d<sub>o</sub>** is the number of Business Days in the relevant Interest Accrual Period;

**i** is a series of whole numbers from one to d<sub>o</sub>, each representing the relevant Business Days in chronological order from, and including, the first Business Days in the relevant Interest Accrual Period;

**Business Day** or **BD** in this condition 4.2(b)(ii)(II) has the meaning set out in Condition 4.5, save that where “SOFR” is specified as the Reference Rate, it means a U.S. Government Securities Business Day;

**n<sub>i</sub>**, for any Business Day “i”, means the number of calendar days from and including such Business Day “i” up to but excluding the following Business Day;

**p** means, for any Interest Accrual Period:

- a. where “Lag” is specified as the Observation Method in the applicable Final Terms, the number of Business Days included in the Observation Look-Back Period specified in the applicable Final Terms (or, if no such number is specified five Business Days);
- b. where “Lock-out” is specified as the Observation Method in the applicable Final Terms, zero;

**r** means:

- a. where in the applicable Final Terms “SONIA” is specified as the Reference Rate and “Lag” is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day;
- b. where in the applicable Final Terms “SOFR” is specified as the Reference Rate and “Lag” is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day;
- c. where in the applicable Final Terms “SONIA” is specified as the Reference Rate and “Lock-out” is specified as the Observation Method:
  1. in respect of any Business Day “i” that is a Reference Day, the SONIA rate in respect of the Business Day immediately preceding such Reference Day, and
  2. in respect of any Business Day “i” that is not a Reference Day (being a Business Day in the Lock-out Period), the SONIA rate in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Accrual Period (such last Reference Day coinciding with the Interest Determination Date); and
- d. where in the applicable Final Terms “SOFR” is specified as the Reference Rate and “Lock-out” is specified as the Observation Method:
  1. in respect of any Business Day “i” that is a Reference Day, the SOFR in respect of the Business Day immediately preceding such Reference Day, and
  2. in respect of any Business Day “i” that is not a Reference Day (being a Business Day in the Lock-out Period), the SOFR in

respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Accrual Period (such last Reference Day coinciding with the Interest Determination Date); and

$r_{i-pBD}$  means the applicable Reference Rate as set out in the definition of “ $r$ ” above for, where “Lag” is specified as the Observation Method in the applicable Final Terms, the Business Day (being a Business Day falling in the relevant Observation Period) falling “ $p$ ” Business Days prior to the relevant Business Day “ $i$ ” or, where “Lock-out” is specified as the Observation Method in the applicable Final Terms, the relevant Business Day “ $i$ ”.

- (ii) where the Calculation Method in respect of the relevant Series of Floating Rate Covered Bonds is specified in the applicable Final Terms as being “Weighted Average”, the Rate of Interest for each Interest Accrual Period will, subject to Condition 14.2(d), as provided below, be the Weighted Average Reference Rate (as defined below) plus or minus (as indicated in the applicable Final Terms) the Margin and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Final Terms) on the Interest Determination Date and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards, where:

**Weighted Average Reference Rate** means:

- a. where “Lag” is specified as the Observation Method in the applicable Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Observation Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Observation Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day; and
  - b. where “Lock-out” is specified as the Observation Method in the applicable Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Interest Accrual Period, calculated by multiplying each relevant Reference Rate by the number of days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Accrual Period, provided however that for any calendar day of such Interest Accrual Period falling in the “Lock-out Period”, the relevant Reference Rate for each day during that Lock-out Period will be deemed to be the Reference Rate in effect for the Reference Day immediately preceding the first day of such Lock-out Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall, subject to the proviso above, be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day.
- (iii) subject to Condition 14.2(d), where “SONIA” is specified as the Reference Rate in the applicable Final Terms, if, in respect of any Business Day, SONIA is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such Reference Rate shall be:
1. (i) the Bank of England’s Bank Rate (the **Bank Rate**) prevailing at close of business on the relevant Business Day; plus (ii) the mean of the spread of SONIA to the Bank Rate over the previous five days on which SONIA has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate, or

2. if such Bank Rate is not available, the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors), and

in each case, “r” shall be interpreted accordingly.

- (iv) subject to Condition 14.2(d), where “SOFR” is specified as the Reference Rate in the applicable Final Terms, if, in respect of any Business Day, the Reference Rate is not available, such Reference Rate shall be the SOFR for the first preceding Business Day on which the SOFR was published on the New York Fed’s Website, and “r” shall be interpreted accordingly.

For the purposes of this Condition 4.2(b)(II), the following definitions will apply:

**Lock-out Period** means the period from, and including, the day following the Interest Determination Date to, but excluding, the corresponding Interest Period Date.

**New York Fed’s Website** means the website of the Federal Reserve Bank of New York currently at <http://www.newyorkfed.org>, or any successor website of the Federal Reserve Bank of New York.

**Observation Period** means, in respect of an Interest Accrual Period, the period from and including the date falling “p” Business Days prior to the first day of the relevant Interest Accrual Period and ending on, but excluding, the date which is “p” Business Days prior to the Interest Period Date for such Interest Accrual Period (or the date falling “p” Business Days prior to such earlier date, if any, on which the Covered Bonds become due and payable).

**Reference Day** means each Business Day in the relevant Interest Accrual Period, other than any Business Day in the Lock-out Period.

**SOFR** means, in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Fed’s Website, in each case on or about 5:00p.m. (New York City Time) on the Business Day immediately following such Business Day.

**SONIA** means, in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day.

- (v) In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, but without prejudice to Condition 14.2(d), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Accrual Period had the Covered Bonds been in issue for a period equal in duration to the scheduled first Interest Accrual Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Accrual Period).



If the relevant Series of Covered Bonds become due and payable in accordance with Condition 9, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms, be deemed to be the date on which such Covered Bonds became due and payable and the Rate of Interest on such Covered Bonds shall, for so long as any such Covered Bond remains outstanding, be that determined on such date.

(c) **BBSW Determination for Floating Rate Covered Bonds**

Where BBSW 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 the rate for prime bank eligible securities (expressed as a percentage rate per annum), having a tenor closest to the relevant Interest Period (the **BBSW Rate**) which is designated as “AVG MID” on the BBSW Page (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) at or about the BBSW Publication Time in the Relevant Financial Centre 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 Australian Calculation Agent or other party responsible for the calculation of the Rate of Interest as specified in the applicable Final Terms.

If the BBSW Page is not available, or if the BBSW Rate does not appear on the BBSW Page by 10.45 a.m. in the Relevant Financial Centre (or such other time that is 15 minutes after the then prevailing BBSW Publication Time in the Relevant Financial Centre), then the Rate of Interest shall be determined in good faith by the Australian Calculation Agent or such other specified person on the Interest Determination Date, after consultation with the Issuer, having regard to comparable indices then available.

If the Australian Calculation Agent or such other specified person is unable to determine the Rate of Interest in accordance with the preceding paragraph, the Rate of Interest shall be that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

In this Condition 4.2(c):

**BBSW Page** means the Thomson Reuters Screen “BBSW” Page, or such other Thomson Reuters screen page (or page of a successor service) as may replace such page for the purpose of displaying the Australian Bank Bill Swap Rate;

**BBSW Publication Time** means 10.30 a.m. (Sydney) (or such other time at which the BBSW Rate is customarily published on the BBSW Page);

**Interest Determination Date** shall mean the date specified as such in the Final Terms or if none is so specified, the first day of each Interest Period; and

**Relevant Financial Centre** shall mean Sydney or as otherwise specified in the applicable Final Terms.

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

If the applicable Final Terms for a Floating Rate 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 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.

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

The Principal Paying Agent, in the case of Floating Rate Covered Bonds or the Australian Calculation Agent, in the case of Floating Rate Covered Bonds which are A\$ Registered 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.

The Principal Paying Agent or the Australian Calculation Agent, in the case of Floating Rate Covered Bonds which are A\$ Registered Covered Bonds, will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding (subject to Condition 4.4 (*Accrual of interest*)) of the Covered Bonds represented by such Global Covered Bond;
- (ii) in the case of Floating Rate Covered Bonds which are A\$ Registered Covered Bonds, the Principal Amount Outstanding (subject to Condition 4.4 (*Accrual of interest*)) of the A\$ Registered Covered Bond; or
- (iii) in the case of Floating Rate 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 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.

(f) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent or the Australian Calculation Agent, in the case of Floating Rate Covered Bonds which are A\$ Registered Covered Bonds, 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 or the Australian Registrar (as the case may be), 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 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 4.5 (*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 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*).

(g) 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 or, if applicable, the Australian Calculation 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.

(h) 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 Australian 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 Australian 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.

(i) Interest on Zero Coupon Covered Bonds

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 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*) or 4.2 (*Interest on Floating Rate 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.

4.4 *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).

4.5 *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 or, in the case of A\$ Registered Covered Bonds, in Sydney 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 (which if the Specified Currency is Australian Dollars will be Sydney) 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*), 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;

- (ix) if **RBA Bond Basis** or **Australian Bond Basis** is specified in the applicable Final Terms, one divided by the number of Interest Payment Dates in a year (or where the Determination Period does not constitute an Interest Period, the actual number of days in the Determination Period divided by 365 (or, if any portion of the Determination Period falls in a leap year, the sum of:
  - (A) the actual number of days in that portion of the Determination Period falling in a leap year divided by 366; and
  - (B) the actual amount of days in that portion of the Determination Period falling in a non-leap year divided by 365)); or
- (x) 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.

#### 4.6 *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*).

## **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 (which, if the Specified Currency is Australian Dollars will be Sydney); 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 (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction but without prejudice to the provisions of Condition 7 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto. 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 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 unless the participant in DTC with an interest in the Covered Bonds has elected to receive any part of such payment in that Specified Currency, in the manner specified in the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

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 *Payments in respect of A\$ Registered Covered Bonds*

Payments of principal and interest in respect of the A\$ Registered Covered Bonds will be made in Australian Dollars to the person shown on the Australian Register on the A\$ Record Date.

Payment of principal and interest shall be made:

- (i) if the A\$ Registered Covered Bond is lodged in the Austraclear System, by crediting on the relevant due date the amount then due on that A\$ Registered Covered Bond to the account (held with a bank in Australia) of Austraclear in accordance with the Austraclear Regulations; and
- (ii) if the A\$ Registered Covered Bond is not lodged in the Austraclear System, by crediting on the relevant due date the amount then due to the relevant holder of the

A\$ Registered Covered Bond to an account in Australia previously notified by the holder of that A\$ Registered Covered Bond to the Issuer and the Australian Paying Agent. If the A\$ Registered Covered Bond has not notified the Issuer and the Australian Paying Agent of such an account by the A\$ Record Date, payments in respect of the relevant A\$ Registered Covered Bond will be made by cheque (drawn on a bank in Australia), mailed on the Business Day immediately preceding the relevant due date, at the risk of the holder of the A\$ Registered Covered Bond, to the registered owner (or to the first named of joint registered owners) of such A\$ Registered Covered Bond at the address appearing in the Australian Register as at the close of business on the A\$ Record Date provided, however, that in no event will such cheque be mailed to an address in the United States. Cheques to be despatched to the nominated address of a holder of A\$ Registered Covered Bonds will in such cases be deemed to have been received by the holder of the A\$ Registered Covered Bonds on the relevant due date and no further amount will be payable by the Issuer or the LLP in respect of the relevant A\$ Registered Covered Bond as a result of payment not being received by the holder of the A\$ Registered Covered Bond on the due date.

None of the Issuer, the LLP or the Bond Trustee 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 A\$ Registered Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

#### 5.6 *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.

#### 5.7 *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, in the case of Covered Bonds that are A\$ Registered Covered Bonds, Sydney; 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, Sydney 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 not elected to receive any part of such payment in a Specified Currency other than 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.

## 5.8 *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 and/or the Australian Bond Trustee (as applicable) 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.

## 5.9 *Definitions*

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

**Calculation Amount** has the meaning given in the applicable Final Terms.

**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 and Floating Rate 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 will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

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 (*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 to apply 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 (*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 or (in the case of A\$ Registered Covered Bonds) the Australian Paying Agent and the Australian 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 (*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 and/or the Australian Bond Trustee (as applicable) 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 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) or the Australian Paying Agent and the Australian Registrar (in the case of the redemption of A\$ 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 and in the case of Redeemed Covered Bonds which are A\$ Registered Covered Bonds, the A\$ Registered Covered Bonds and the holders of A\$ Registered Covered Bonds to be redeemed will be determined in such manner as may be fair and reasonable in the circumstances taking account of prevailing market practices, subject to compliance with any applicable laws, stock exchange or other relevant authority requirements, 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 Investor Put is specified as being applicable 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 and, 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.

If the relevant Covered Bond is an A\$ Registered Covered Bond lodged in the Austraclear System, to exercise the right to require redemption of this Covered Bond the holder of the beneficial interest in this Covered Bond must, within the notice period, give notice to the Australian Registrar of such exercise in accordance with the Austraclear Regulations.

If the relevant Covered Bond is an A\$ Registered Covered Bond held outside of the Austraclear System, to exercise a right to require redemption of this Covered Bond, the Covered Bondholder must, within the notice period, give notice to the Issuer and the Australian Registrar of such exercise in a form acceptable to the Australian Registrar together with any evidence the Australian Registrar may require to establish title of the Covered Bondholder to the relevant Covered Bond.

#### 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 or the Australian 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, Receiptholders 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), at the amount 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).

#### 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, cancelled or 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 cancelled or 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 (other than any A\$ Registered 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. All Covered Bonds so cancelled cannot be reissued or resold.

#### 6.11 *Taxes*

The Issuer has undertaken in the Trust Deed to pay any stamp and other duties or taxes (if any) on or in connection with the execution of these presents or the Australian Deed Poll in the United Kingdom or any state or territory of Australia, 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.

## 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, 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 or Australia 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) 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.

Notwithstanding any other provision of these Terms and Conditions of the Covered Bonds, any amounts to be paid on the Covered Bonds by or on behalf of the Issuer or the LLP, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA Withholding**). None of the Issuer, the LLP or any other person will be required to pay any additional amounts in respect of FATCA Withholding.

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, or in relation to the A\$ Registered Covered Bonds, the Australian Paying Agent or the Australian 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, the LLP will not be obliged to pay any additional amounts as a consequence.



## 8. Prescription

The Covered Bonds other than A\$ Registered Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within 10 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 10 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*).

Claims against the Issuer for payment in respect of the A\$ Registered Covered Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of them, subject in each case to the provisions of Condition 5 (*Payments*).

## 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 or, in relation to A\$ Registered Covered Bonds, the Australian Deed Poll) 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) 10 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 paragraph (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 under the RCB Regulations and/or 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 and the Australian 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 and the Australian 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 and the Australian Bond Trustee (as applicable) 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 and/or the Australian Bond Trustee (as applicable) 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 and/or the Australian Bond Trustee (as applicable) 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 and/or (in case of the A\$ Covered Bondholders) the Australian Bond Trustee (as applicable) 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 or, in relation to A\$ Registered Covered Bonds, the Australian Deed Poll) 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 paragraph (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 (and/or, to the extent applicable in relation to the A\$ Registered Covered Bonds, the Australian 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 and (where appropriate) converted into Sterling at the relevant Covered Bond Swap Rate 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 (and/or, to the extent applicable in relation to the A\$ Registered Covered Bonds, the Australian 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 (other than any A\$ Registered 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 (other than any A\$ Registered Covered Bond), 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 Australian Registrar, the initial Australian Paying 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, a Registrar and, so long as any A\$ Registered Covered Bonds are outstanding, an Australian Registrar and Australian Paying Agent and, if so required by any Final Terms of any such A\$ Registered Covered Bonds, an Australian Calculation Agent;
- (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; and
- (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.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.6 (*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 days' 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:

- (i) 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
- (ii) 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 including publication on the website of the relevant stock exchange or relevant authority is required by those rules. 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.

All notices regarding the A\$ Registered Covered Bonds will be published in a daily newspaper of general circulation which may include the *Australian Financial Review* or *The Australian*. Any such notice will be deemed to have been validly given on the date of such publication. In addition, all notices regarding the A\$ Registered Covered Bonds will be deemed to be validly given if sent by pre-paid post or (if posted to an address overseas) by airmail to, or left at the address of, the holders (or the first named of joint holders) at their respective addresses recorded in the A\$ Register and will be deemed to have been given on the seventh day after mailing. For so long as the A\$ Registered Covered Bond are lodged in the Austraclear System, a copy of any notice given in accordance with this paragraph must also be given to Austraclear.

For so long as the A\$ Registered Covered Bonds are lodged in the Austraclear System there may be substituted for the preceding paragraph, mailing the delivery of the relevant notice to Austraclear for communication by it to the holders of beneficial interests in the A\$ Registered Covered Bonds. Any such notice will be deemed to have been validly given to the holders of beneficial interests in the A\$ Registered Covered Bonds on the day on which the said notice was given to Austraclear.

In addition, for so long as the A\$ Registered Covered Bonds are admitted to trading on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, any notice or notices given in accordance with the preceding paragraphs in respect of the A\$ Registered Covered Bonds will be published in a daily newspaper of general circulation in the place or places required by those rules.

Notices to be given by any Covered Bondholder (other than in relation to A\$ Registered Covered Bonds) 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. Notices to be given by any Covered Bondholder in respect of A\$ Registered Covered Bonds to the Issuer will be in writing and must be (i) sent by pre-paid post or (if posted to an address overseas) by airmail to; or (ii) left at the address of, the Issuer and will be deemed to have been given on the seventh day after mailing or on the day of delivery, respectively.

#### **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, the Bond Trustee or (in case of the A\$ Registered Covered Bonds) the Australian 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 of the relevant Series 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 or (in case of meetings in relation to one of more series of the A\$ Registered Covered Bonds only) the Australian 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 or (in case of meetings in relation to one of more series of the A\$ Registered Covered Bonds only) the Australian 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 or (in case of meetings in relation to one of more series of the A\$ Registered Covered Bonds only) the Australian 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, the Bond Trustee, (in the case of A\$ Registered Covered Bonds only) the Australian Bond Trustee or by Covered Bondholders, 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 Receipholders 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 and the Security Trustee may in the case of (a) and (b) below, and the Bond Trustee or the Security Trustee (as applicable) shall in the case of (c) and (d) below, agree and the LLP and the Issuer may also agree, without the consent of the Covered Bondholders, Receipholders 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):

- (a) 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 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) to 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;
- (c) following the redemption of all the Covered Bonds outstanding as of 7 June 2013 and any Covered Bonds issued on or after such date but which are to be consolidated and form a single Series with such Covered Bonds, and subject to receipt by the Bond Trustee and the Security Trustee of a certificate of the Issuer or the LLP certifying to the Bond Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer or the LLP to satisfy the relevant requirements, to any modifications 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 as requested by the Issuer and/or the LLP in order to enable the Issuer and/or the LLP to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the **European Market Infrastructures Regulation** or **EMIR**) in accordance with the terms of the Trust Deed, and the Covered Bondholder shall be deemed to have instructed the Security Trustee to consider such amendments to the Transaction Documents and/or these Terms and Conditions to be not

materially prejudicial for the purposes of making a determination under clause 22.7(a) of the Deed of Charge.

- (d) to any modification (other than in respect of a Series Reserved Matter, provided that a Base Rate Modification (as defined below) will not constitute a Series Reserved Matter) to the Conditions and/or any Transaction Document (including, for the avoidance of doubt but without limitation, the Covered Bond Swap in relation to the relevant Series of Covered Bonds and subject to the consent only of the Secured Creditors (i) party to the relevant Transaction Document being amended or (ii) whose ranking in any Priorities of Payments is affected that the Issuer considers necessary for the purpose of changing the base rate in respect of the Covered Bonds from LIBOR, EURIBOR, BBSW, SONIA, SOFR or such other benchmark rate (each, a **Reference Rate**) to an alternative base rate (any such rate, an **Alternate Base Rate**) and making such other amendments as are necessary or advisable in the reasonable judgment of the Issuer to facilitate such change (a **Base Rate Modification**), provided that:

- (A) the Issuer certifies to the Bond Trustee and the Security Trustee in writing (such certificate, a **Base Rate Modification Certificate**) that:

- (i) such Base Rate Modification is being undertaken due to:
  - (I) a material disruption to the relevant Reference Rate, an adverse change in the methodology of calculating the relevant Reference Rate or the relevant Reference Rate ceasing to exist or be published;
  - (II) the insolvency or cessation of business of the administrator of the Reference Rate (in circumstances where no successor administrator has been appointed);
  - (III) a public statement by the administrator of the relevant Reference Rate that it will cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator for the Reference Rate has been appointed that will continue publication of the relevant Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable;
  - (IV) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued or will be changed in an adverse manner and such cessation is reasonably expected by the Issuer to occur prior to the Final Maturity Date or the Extended Due for Payment Date, as applicable;
  - (V) a public statement by the supervisor of the administrator of the relevant Reference Rate that means such Reference Rate may no longer be used or that its use is or will be subject to restrictions or adverse consequences; or
  - (VI) the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (I), (II), (III), (IV) or (V) will occur or exist within six months of the proposed effective date of such Base Rate Modification,
- (ii) the modifications proposed are required solely for the purpose of applying the Alternative Base Rate and making consequential modifications to any Transaction Document which are, as reasonably determined by the Issuer as necessary or advisable in its reasonable judgement, and the modifications have been drafted solely to such effect; and
- (iii) the consent of each Secured Creditor (x) which is party to the relevant Transaction Document being amended, or (y) whose ranking in any Priorities of Payments is affected has been obtained (evidence of which

shall be provided by the Issuer to the Bond Trustee and the Security Trustee with the Base Rate Modification Certificate) and, subject to Condition 14.2(d)(G), no other consents are required to be obtained in relation to the Base Rate Modification; and

- (B) such Alternate Base Rate is:
  - (1) a base rate published, endorsed, approved or recognised by the Bank of England, any regulator in the United States, the United Kingdom, Australia or the European Union or any stock exchange on which the Covered Bonds or listed or any relevant committee or other body established, sponsored or approved by any of the foregoing); or
  - (2) in relation to LIBOR, EURIBOR, BBSW, SONIA or SOFR (or any rate which is derived from, based upon or otherwise similar to any of the foregoing); or
  - (3) a base rate utilised in a material number of publicly-listed new issues of floating rate covered bonds or floating rate senior unsecured notes prior to the effective date of such Base Rate Modification (for these purposes, 5 such issues shall be considered material); or
  - (4) a base rate utilised in a publicly-listed new issue of floating rate covered bonds where the issuer (or, in the case of asset backed securities, the originator of the relevant assets) is the Issuer or an Affiliate of the Issuer,
- (C) at least 30 days' prior written notice of any Base Rate Modification has been given to the Bond Trustee and the Security Trustee;
- (D) the Base Rate Modification Certificate is provided to the Bond Trustee and the Security Trustee both at the time the Bond Trustee and the Security Trustee are notified of the Base Rate Modification and on the effective date of such Base Rate Modification;
- (E) with respect to each Rating Agency, either:
  - (1) the Issuer obtains from such Rating Agency written confirmation that such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the relevant Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent) and delivers a copy of each such confirmation to the Bond Trustee and the Security Trustee; or
  - (2) the Issuer certifies in writing to the Bond Trustee and Security Trustee that it has notified such Rating Agency of the Base Rate Modification and, in its opinion, formed on the basis of due consideration and consultation with such Rating Agency (including, as applicable, upon receipt of oral confirmation from an appropriately authorised person at such Rating Agency), such Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Covered Bonds of any Series by such Rating Agency or (y) such Rating Agency placing the Covered Bonds of any Series on rating watch negative (or equivalent);
- (F) the Issuer pays (or arranges for the payment of) all fees, costs and expenses (including legal fees) properly incurred by the Bond Trustee and the Security Trustee in connection with such Base Rate Modification;
- (G) the Issuer has provided at least 30 days' notice to the Covered Bondholders of the relevant Series of Covered Bonds of the Base Rate Modification in accordance with Condition 13 (Notices) and by publication on Bloomberg on the "Company News" screen relating to the Covered Bonds (in each case specifying the date and time by which Covered Bondholders must respond), and Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant

Series of Covered Bonds then outstanding have not contacted the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which such Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification.

If Covered Bondholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the relevant Series of Covered Bonds then outstanding have notified the Issuer or the Principal Paying Agent in accordance with the then current practice of any applicable Clearing System through which the Covered Bonds may be held by the time specified in such notice that such Covered Bondholders do not consent to the Base Rate Modification, then the Base Rate Modification will not be made unless an Extraordinary Resolution of the Covered Bondholders of the relevant Series then outstanding is passed in favour of the Base Rate Modification in accordance with Condition 14 (*Meetings of holders of the Covered Bonds, Modification and Waiver*).

Objections made in writing other than through the applicable Clearing System must be accompanied by evidence to the Bond Trustee's satisfaction (having regard to prevailing market practices) of the relevant Covered Bondholder's holding of the Covered Bonds.

For the avoidance of doubt, the Issuer may propose an Alternative Base Rate on more than one occasion provided that the conditions set out in this Condition 14.2(d) are satisfied.

- (e) When implementing any modification pursuant to Condition 14.2(d):
  - (A) the Bond Trustee and the Security Trustee shall not consider the interests of the Covered Bondholders, any other Secured Creditor or any other person and shall act and rely solely and without investigation or liability on any Base Rate Modification Certificate or other certificate or evidence provided to it by the Issuer and shall not be liable to the Covered Bondholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
  - (B) neither the Bond Trustee nor the Security Trustee shall be obliged to agree to any modification which, in the sole opinion of the Bond Trustee and/or the Security Trustee would have the effect of (i) exposing the Bond Trustee and/or the Security Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights, powers, authorisations, discretions, indemnification or protections, of the Bond Trustee and/or the Security Trustee in the Transaction Documents and/or these Terms and Conditions.

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 Series of 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 (and/or, to the extent applicable in relation to the A\$ Registered Covered Bonds, the Australian 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 (and/or, to the extent applicable in relation to the A\$ Registered Covered Bonds, the Australian 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 (and/or, to the extent applicable in relation to the A\$ Registered Covered Bonds, the Australian 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 FCA to be notified in accordance with Regulation 20 of the RCB Regulations; or
- (b) if such modification, authorisation, waiver or determination would require notification in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FCA and the FCA have given their 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 10 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.

References in the foregoing provisions of this Condition 14 to Covered Bonds, Receipts, Coupons, Covered Bondholders, and Series shall exclude the A\$ Registered Covered Bonds and A\$ Covered Bondholders. To the extent that all or any such references relate to, or are in respect of, the covenant to pay in relation to the A\$ Registered Covered Bonds made by the Issuer under the Australian Deed Poll and in that circumstance, the Australian Bond Trustee shall have all of the powers set out in this Condition 14 to act on behalf of the A\$ Covered Bondholders in respect of the A\$ Registered Covered Bonds and references in the relevant provisions to the Bond Trustee, Covered Bonds, Covered

Bondholders and Series shall be construed, respectively, as the Australian Bond Trustee, the A\$ Registered Covered Bonds, the A\$ Covered Bondholders and Series of the A\$ Registered Covered Bonds respectively.

**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, the Australian Bond Trustee (if applicable) 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, the Australian Bond Trustee (if applicable) 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, the Australian 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, the Australian 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, Receipholders 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.

None of the Bond Trustee, the Australian Bond Trustee or 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, the Australian Bond Trustee and/or the Security Trustee. None of the Bond Trustee, the Australian Bond Trustee or 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, the Australian 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. None of the Bond Trustee, the Australian Bond Trustee or 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 Bond 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, the Australian 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 and, relation to A\$ Registered Covered Bonds, a deed poll in a form similar to the Australian Deed Poll 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 Australian Deed Poll, 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 and/or (as applicable) deed poll 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 and Submission to Jurisdiction**

### **21.1 Governing Law**

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds (other than any A\$ Registered Covered Bonds), the Receipts, the Coupons and the other Transaction Documents (other than the Australian Deed Poll, 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. The Australian Deed Poll, the A\$ Registered Covered Bonds and these Terms and Conditions as they apply to the A\$ Registered Covered Bonds are governed by, and will be construed in accordance with, the laws applying in the State of New South Wales, Australia.

### **21.2 Submission to Jurisdiction**

The Issuer and the LLP have agreed to submit to the exclusive jurisdiction of the courts of England in any action arising out of the Trust Deed, the Principal Agency Agreement, the Programme Agreement, the Australian Deed Poll and the Covered Bonds. In the limited instances where a Covered Bondholder or Couponholder may proceed directly against the Issuer or LLP due to a failure to act by the Bond Trustee or the Security Trustee, as the case may be, as described herein, it may be necessary for such Covered Bondholder or Couponholder to bring a suit in the courts of England to enforce its rights against the Issuer or the LLP, as the case may be, with respect to the Bond Trust Deed or any other Transaction Document, the Covered Bonds, the Coupons or the Security.

## **22. Agent for service of process**

For so long as any of the A\$ Registered Covered Bonds issued by it are outstanding, the Issuer will ensure that there is an agent appointed to accept service of process on its behalf in New South Wales, Australia.

The Issuer appoints Equity Trustees Limited (ABN 46 004 031 298) of L19, 56 Pitt Street, Sydney, New South Wales 2000 as its agent for service of process. If for any reason that person ceases to be able to act as such, the Issuer will immediately appoint another person with an office located in New South Wales to act as its agent to receive any such document and will promptly notify the Australian Registrar and the Covered Bondholders of such appointment.

### **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 BANK GROUP

### Overview

As at the date of this Prospectus, the Issuer is the principal operating subsidiary of Lloyds Banking Group and is wholly owned by the Company. Accordingly, set out below is information relating to Lloyds Banking Group, the Group and the Issuer which is necessary in order for investors to understand the business of the Issuer and the relevance of its relationship with the Company.

The Group is a leading provider of financial services to individual and business customers in the UK. The Issuer operates under the Companies Act 2006.

### 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 (the **TSB Group**). 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 merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group, which was re-named Lloyds TSB Group plc (**LTSB**), 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, LTSB acquired Scottish Widows Limited (**Scottish Widows**). In addition to already being one of the leading providers of banking services in the UK, the acquisition of Scottish Widows also positioned LTSB as one of the leading suppliers of long-term savings and protection products in the UK.

The HBOS Group had been formed in September 2001 by the merger of Halifax plc (**Halifax**) and Bank of Scotland plc (**BoS**). The Halifax business began with the establishment of the Halifax Permanent Benefit Building Society in 1852; the society grew through a number of mergers and acquisitions including the merger with Leeds Permanent Building Society in 1995 and the acquisition of Clerical Medical Investment Group Limited (**CMIG**) in 1996. In 1997 the Halifax converted to plc status and floated on the London stock market. BoS was founded in July 1695, making it Scotland's first and oldest bank.

On 18 September 2008, with the support of the UK Government, the boards of LTSB and HBOS announced that they had reached agreement on the terms of a recommended acquisition by LTSB of HBOS. The shareholders of LTSB approved the acquisition at the Company's general meeting on 19 November 2008. On 16 January 2009, the acquisition was completed and LTSB 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 sales of shares in September 2013 and March 2014 and the completion of trading plans with Morgan Stanley & Co. International plc, the UK Government completed the sale of its shares in May 2017, returning the Group to full private ownership.

Pursuant to its decision approving state aid to Lloyds Banking Group, the European Commission required Lloyds Banking Group to dispose of a retail banking business meeting minimum requirements for the number of branches, share of the UK personal current accounts market and proportion of Lloyds Banking Group's mortgage assets. Following disposals in 2014, Lloyds Banking Group sold its remaining interest in TSB to Banco de Sabadell in 2015, and all European Commission state aid requirements were met by 30 June 2017.

On 1 June 2017, following the receipt of competition and regulatory approval, the Group acquired 100 per cent. of the ordinary share capital of MBNA, which, together with its subsidiaries, operates a UK consumer credit card business, from FIA Jersey Holdings Limited, a wholly-owned subsidiary of Bank of America.

Lloyds Banking Group successfully launched its new non ring-fenced bank, LBCM in 2018, transferring in the non ring-fenced business from the Group, thereby meeting its legal requirements under ring-fencing legislation.

As a result of the requirements of the ring-fencing regulations, the Issuer sold its subsidiary, Scottish Widows Group Limited, to its ultimate holding company during 2018. In addition, the Issuer and its subsidiary, BoS sold the element of their overseas and commercial banking businesses required to be transferred in order to ensure compliance with the ring-fencing legislation to LBCM, a fellow Lloyds Banking Group undertaking.

### **Ratings of the Issuer**

As at the date of this Prospectus: (i) long-term senior obligations of the Issuer are rated “A+” by S&P, “Aa3” by Moody’s and “A+” by Fitch; and (ii) short-term senior obligations of the Issuer are rated “A-1” by S&P, “P-1” by Moody’s and “F1” by Fitch.

### **Expected ratings in relation to Covered Bonds issued by the Issuer under the Programme**

The Covered Bonds issued under the Programme are expected on issue to be assigned an “AAA” rating by Fitch and an “Aaa” rating by Moody’s.

The credit ratings referred to and included in this Prospectus have been issued by S&P, Fitch and Moody’s, each of which is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

For detail on credit ratings risks see “*Risk Factors — Financial Soundness Related Risks*”. In particular, see “*Risk Factors — Financial Soundness Related Risks — The Group’s borrowing costs and access to the capital markets are dependent on a number of factors, including any reduction in the Group’s longer-term credit rating, and increased costs or reduction in access could materially adversely affect the Group’s results of operations, financial condition or prospects*”.

### **Strategy of Lloyds Bank Group**

Lloyds Bank Group is a leading provider of financial services to individual and business customers in the UK. Lloyds Bank Group’s main business activities are retail and commercial banking. Services are provided through a number of well recognised brands including Lloyds Bank, Halifax and BoS and through a range of distribution channels, including the largest branch network and digital bank in the UK.

The external environment is evolving rapidly, including in relation to changing customer behaviours, the pace of technological evolution and changes in regulation. Given the capabilities of Lloyds Bank Group and the significant progress made in recent years, Lloyds Bank Group believes that it is in a strong position to compete in this environment by developing additional competitive advantages. Lloyds Bank Group will continue to transform itself to succeed in this digital world and the next phase of its strategy is intended to ensure that Lloyds Bank Group has the capabilities to deliver future success.

### **Business and Activities of Lloyds Bank**

At 31 December 2018, the Group’s activities were organised into two financial reporting segments: Retail and Commercial Banking.

#### ***Retail***

Retail offers a broad range of financial service products to personal and business banking customers, including current accounts, savings, mortgages, credit cards, unsecured loans, motor finance and leasing solutions. Its aim is to be the best bank for customers in the UK, by building deep and enduring relationships that deliver value to customers, and by providing them with choice and flexibility with propositions increasingly personalised to their needs. Retail operates a multi-brand and multi-channel strategy and continues to simplify its business and provide more transparent products, helping to improve service levels and reduce conduct risks, whilst working within a prudent risk appetite.

#### ***Commercial Banking***

Commercial Banking has a client-led, low risk, capital efficient strategy, committed to supporting UK-based clients and international clients with a link to the UK. Through its segmented client coverage model it provides

clients with a range of products and services such as lending, transactional banking, working capital management, risk management and debt capital markets services. Continued investment in capabilities and digital propositions enables the delivery of a leading customer experience, supported by increasingly productive relationship managers, with more time spent on value-adding activities.

## **Material Contracts**

The Company, the Issuer and their subsidiaries are party to various contracts in the ordinary course of business.

## **Competitive Environment**

The Group provides financial services to individual and business customers, predominantly in the UK but also overseas. The main business activities of the Group are retail and commercial banking.

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 along with emerging forms of lending in the commercial banking markets.

The markets for UK financial services, and the other markets within which the Group operates, are competitive, and management expects such competition to continue or intensify in response to competitor behaviour, including non-traditional competitors, consumer demand, technological changes such as the growth of digital banking, and the impact of regulatory actions and other factors.

For more information see *“Risk Factors – Business and Economic Risks – The Group’s businesses are conducted in competitive environments, with increased competition scrutiny, and the Group’s financial performance depends upon management’s ability to respond effectively to competitive pressures.”*

## **Regulation**

### ***Approach of the Financial Conduct Authority (FCA)***

As per the FSMA (amended by the Financial Services Act 2012), the FCA has a strategic objective to ensure that the relevant markets function well. In support of this, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system and to promote effective competition in the interests of consumers.

The FCA Handbook sets out rules and guidance across a range of conduct issues with which financial institutions are required to comply including high level principles of business and detailed conduct of business standards and reporting standards.

### ***Regulatory Approach of the PRA***

As per the Financial Services Act 2012, the PRA has two statutory objectives: to promote the safety and soundness of the firms which it supervises and, with respect to insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The PRA’s regulatory and supervisory approach incorporates three key characteristics: to take a judgement-based approach, a forward-looking approach, and a focused-approach.

The PRA has largely inherited the prudential aspects of the former FSA Handbook, including regulations and guidance relating to capital adequacy and liquidity among several other things.

### ***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 detailed in the Memorandum of Understanding published jointly by HM Treasury, the FCA (formerly the FSA) and the Bank of England (now including the PRA). 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 in the UK and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role. The Bank of England also wholly incorporates the PRA.

### *UK Financial Ombudsman Service (FOS)*

The FOS provides consumers 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 for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the Consumer Credit Act 1974. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases individually on merit 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 final decisions made by the FOS are legally binding on regulated firms who also have a requirement under the FCA rules to ensure that lessons learned as a result of determinations by the FOS are effectively applied in future complaint handling.

### *The Financial Services Compensation Scheme (the FSCS)*

The FSCS was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. Companies 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. 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 PRA and the FCA, including companies within the Group.

### *Lending Standards Board*

The Lending Standards Board is responsible for overseeing the Standards of Lending Practice (for both personal and business customers). The Standards of Lending Practice for personal customers cover six main areas: financial promotions and communications; product sales; account maintenance and servicing; money management; financial difficulty; and, customer vulnerability across key lending (current account overdrafts, credit cards, loans and chargecards) to consumers and charities with an income of less than £1 million. The Standards of Lending Practice for business customers apply to business customers, which at the point of lending have a non-complex ownership structure, and an annual turnover of less than £6.5 million. The standards cover eight main areas: product information; product sale; declined applications; product execution; credit monitoring; financial difficulty; portfolio management; and, vulnerability for products including loans, overdrafts, commercial mortgages, credit cards, and chargecards.

### *UK Competition and Markets Authority (CMA)*

The objective of the CMA is to promote competition to ensure that markets work well for consumers, businesses and the economy. Since 1 April 2014 the CMA has, with the FCA, exercised the competition functions previously exercised by the Office of Fair Trading and the Competition Commission. Through its five strategic goals (delivering effective enforcement; extending competition frontiers; refocusing competition protection; achieving professional excellence; and, developing integrated performance) the CMA impacts the banking sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition law. In addition, the CMA is now the lead enforcer under the Unfair Terms in Consumer Contracts Regulations 1999.

### *UK Information Commissioner's Office*

The UK Information Commissioner's Office is responsible for overseeing implementation of the Data Protection Act 2018 which enshrines the General Data Protection Regulation. 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.

### *The Payments System Regulator (PSR)*

The PSR is an independent economic regulator for the £75 trillion payment systems industry, which was launched in April 2015. Payment systems form a vital part of the UK's financial system – they underpin the services that enable funds to be transferred between people and institutions. The purpose of PSR is to make payment systems work well for those that use them. The PSR is a subsidiary of the FCA, but has its own statutory objectives, Managing Director and Board. In summary its objectives are: (i) to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and

consumers that use them; (ii) to promote effective competition in the markets for payment systems and services - between operators, payment services providers and infrastructure providers; and (iii) to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.

### ***Competition Regulation***

The FCA obtained concurrent competition powers with the CMA on 1 April 2015 in relation to the provision of financial services in the UK, in addition to supplementing its existing competition objective. The FCA has been undertaking a programme of work to assess markets across financial services to ascertain whether or not competition is working effectively in the best interests of consumers. In addition, the PRA also has a secondary objective under the Financial Services (Banking Reform) Act to, so far as reasonably possible, act in a way which facilitates effective competition.

The PSR became operational in April 2015 with concurrent competition powers in respect of UK payment systems, in addition to a statutory objective to promote effective competition. The PSR has completed two market reviews into the provision of indirect access and into the ownership and competitiveness of payments infrastructure. The final report for indirect access was published in July 2016 noting some concerns with quality of access, limited choice and barriers to switching. The final report for competitiveness of payments infrastructure, also published in July 2016, noted some concerns with competition in payments infrastructure.

The FCA announced on 3 November 2016 that it would take action to improve competition in the current account market, following the CMA's recommendations in the publication of its competition investigation into personal current account (PCA) and SME Banking (9 August 2016). The FCA have published their final report into the 'Strategic Review of Retail Banking Business Models' (18 December 2018) recognising that PCAs are an important source of competitive advantage for major banks. The focus on high cost credit continues with further forward work on its proposals to simplify the pricing of all overdrafts and end higher prices for unarranged overdrafts. The FCA continues to act as an observer on the "Open Banking" steering group and be involved in developing and testing "prompts" to encourage customers to consider their banking arrangements. The UK Government has a continuing interest in competition. In November 2015, the UK Government published a document entitled "A better deal: boosting competition to bring down bills for families and firms". This document focuses on the competition aspects of the UK Government's productivity plan and aims to promote competition in various sectors, including financial services.

The new regulatory regime may lead to greater UK Government and regulatory scrutiny or intervention in the future, ranging from enforced product and service developments and payment system changes to significant structural changes. This could have a significant effect on the Group's operations, financial condition or the business of the Group.

### ***EU Regulation***

The UK is subject to the legislation introduced under the Financial Services Action Plan. However, the legislation is 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.

CRD IV implements the Basel III agreement in the EU, and introduces significant changes in the prudential regulatory regime applicable to banks including: increased minimum capital ratios; changes to the definition of capital and the calculation of risk-weighted assets; and the introduction of new measures relating to leverage, liquidity and funding. CRD IV also makes changes to rules on corporate governance, including remuneration, and introduces standardised EU regulatory reporting requirements which will specify the information that must be reported to supervisors in areas such as own funds, large exposures and financial information. See also the risk factors entitled "*Regulatory and Legal Risks - The Group faces risks associated with an uncertain and rapidly evolving international and national prudential, legal and regulatory environment*", "*Regulatory and Legal Risks - The Group and its UK subsidiaries may become subject to the provisions of the Banking Act 2009, as amended, which could have an adverse impact on the Group's business*" and "*Business and Economic Risks - Political, legal, regulatory, constitutional and economic uncertainty arising from the outcome of the referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects*".



## *U.S. Regulation*

In the United States, until 2018 the Issuer and BoS maintained branches in New York, each licenced by the New York State Department of Financial Services (**NYDFS**) and subject to regulation and examination by the NYDFS and the Federal Reserve Bank of New York. BoS also maintained a representative office in Houston, Texas (authorised by the Texas Department of Banking (**TXB**), and subject to regulation and examination by TXB and the Federal Reserve Bank of Dallas). On 11 July 2018, the New York branch of BoS was closed and its licence surrendered to the NYDFS, and the NYDFS confirmed to BoS in October, 2018 that the voluntary liquidation of the BoS New York branch under the New York State Banking Law was considered concluded. On 31 December 2018, the Issuer advised the NYDFS that the Issuer's New York branch was closed and the Issuer surrendered its New York branch licence to the NYDFS on that date. The completion of the voluntary liquidation of the Issuer's New York branch is expected to occur during the first half of 2019. The closure of the New York branches of the Issuer and BoS was a consequence of the need by both banks to comply with the geographic limitations of the Ring-fencing Rules. The BoS Houston representative office was also closed by BoS on 31 December 2018. In July, 2018, applications filed on behalf of LBCM with the Board of Governors of the Federal Reserve System (**Federal Reserve Board**) and the NYDFS to permit LBCM to establish a branch in New York were approved, and on 27 July 2018, LBCM's New York branch licence was issued by the NYDFS. Also in July, 2018, at the request of the Issuer, the NYDFS issued a representative office licence to the Issuer. Under the New York State Banking Law, the NYDFS has the authority, in certain circumstances, to take possession of the business and property located in New York State of a bank, such as LBCM, which maintains a licenced branch in New York State. Such circumstances generally include violations of law, unsafe business practices and insolvency.

The existence of a branch of LBCM in the U.S. subjects the Company and its subsidiaries, including the Issuer, doing business or conducting activities in the U.S. to oversight by the Federal Reserve Board.

As at the end of 2018, each of the Company, Lloyds Bank, HBOS, BoS and LBCM was a foreign banking organisation treated as a bank holding company within the meaning of the U.S. Bank Holding Company Act of 1956 (**BHC Act**) in accordance with the provisions of the International Banking Act of 1978 and each had elected, with the permission of the Federal Reserve Board, to be treated as a financial holding company under the BHC Act.

As a result of the Ring-fencing Rules, from and after 1 January 2019, neither the Issuer nor BoS may maintain branches or own substantial equity stakes in entities organised outside of the European Economic Area. Each of the Issuer and BoS have ceased to be treated as a financial holding company under the BHC Act from and after 1 January 2019. HBOS has no direct or indirect investments or activities in the U.S., and has also ceased to be treated as a financial holding company. However, each of the Company and LBCM will continue to be treated as a financial holding company under the BHC Act.

Financial holding companies (such as the Company) may engage in a broader range of financial and related activities than are permitted to bank holding companies that do not maintain financial holding company status, including underwriting and dealing in all types of securities. A financial holding company and its depository institution subsidiaries, including the Issuer, must meet certain capital ratios and be deemed to be "well managed" for purposes of the Federal Reserve Board's regulations. A financial holding company's direct and indirect activities and investments in the United States are limited to those that are "financial in nature" or "incidental" or "complementary" to a financial activity, as determined by the Federal Reserve Board.

Financial holding companies are also subject to approval requirements in connection with certain acquisitions or investments. For example, Lloyds Banking Group is required to obtain the prior approval of the Federal Reserve Board before acquiring, directly or indirectly, the ownership or control of more than 5 per cent. of any class of the voting shares of any U.S. bank or bank holding company.

Lloyds Banking Group's U.S. broker dealer, Lloyds Securities Inc. (**LSI**), is subject to regulation and supervision by the Securities and Exchange Commission and the Financial Industry Regulatory Authority with respect to its securities activities, including sales methods, trade practices, use of safekeeping of customers' funds and securities, capital structure, recordkeeping, conduct of directors, officers and employees and other matters pertinent to its securities business. In order to comply with the change to Ring-fencing Rules, LSI became an indirect, wholly-owned subsidiary of LBCM on 1 July 2018 as a result of the sale of 100 per cent. of the shares of LSI's direct parent (Lloyds America Securities Corporation) by the Issuer to LBCM.

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. Lloyds Banking 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, Sudan and North Korea. Lloyds Banking Group intends to engage in new business in such jurisdictions only in very limited circumstances where Lloyds Banking Group is satisfied concerning legal, compliance and reputational issues. At 31 December 2018, Lloyds Banking Group does not believe that Lloyds Banking Group's business activities relating to countries designated as state sponsors of terrorism were material to its overall business.

Lloyds Banking Group estimates that the value of Lloyds Banking Group's business in respect of such states represented less than 0.01 per cent. of Lloyds Banking Group's total assets and, for the year ended December 2018, Lloyds Banking Group believes that Lloyds Banking Group's revenues from all activities relating to such states were less than 0.001 per cent. of its total income, net of insurance claims. This information has been compiled from various sources within Lloyds Banking Group, including information manually collected from relevant business units, and this has necessarily involved some degree of estimate and judgement.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the **Dodd-Frank Act**), which was enacted in the United States in 2010, has resulted in significant changes in U.S. financial regulation. The Dodd-Frank Act addresses, among other topics, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions in the United States, OTC derivatives, restrictions on the ability of banking entities to engage in proprietary trading activities and make investments in and sponsor certain private equity funds and hedge funds, asset securitisation activities and securities market conduct and oversight. In addition, the Dodd-Frank Act established a regulatory framework for swap dealers and major swap participants.

Among other requirements imposed by this framework, the Dodd-Frank Act required entities that are swap dealers and major swap participants to register with the U.S. Commodity Futures Trading Commission (**CFTC**). Each of the Issuer and LBCM is registered as a swap dealer and as such, is subject to regulation and supervision by the CFTC and the National Futures Association with respect to certain of its swap activities, including risk management practices, trade documentation and reporting, business conduct and recordkeeping, among others.

## **Legal Actions and Regulatory Matters**

During the ordinary course of business the Group is subject to threatened or actual legal proceedings and regulatory reviews and investigations both in the UK and overseas. Set out below is a summary of the more significant matters.

### *Interchange fees*

With respect to multi-lateral interchange fees (**MIFs**), Lloyds Banking Group is not directly involved in the ongoing investigations and litigation (as described below) which involve card schemes such as Visa and Mastercard. However, Lloyds Banking Group is a member/licensee of Visa and Mastercard and other card schemes:

- The European Commission continues to pursue competition investigations against Mastercard and Visa probing, amongst other things, MIFs paid in respect of cards issued outside the EEA;
- Litigation brought by retailers continues in the English courts against both Visa and Mastercard;
- Any ultimate impact on Lloyds Banking Group of the above investigations and litigation against Visa and Mastercard remains uncertain at this time.

Visa Inc completed its acquisition of Visa Europe on 21 June 2016. As part of this transaction, Lloyds Banking Group and certain other UK banks also entered into a Loss Sharing Agreement (**LSA**) with Visa Inc, which clarifies the allocation of liabilities between the parties should the litigation referred to above result in Visa Inc being liable for damages payable by Visa Europe. The maximum amount of liability to which Lloyds Banking Group may be subject under the LSA is capped at the cash consideration which was received by Lloyds Banking Group at completion. Visa Inc may also have recourse to a general indemnity, previously in place under Visa Europe's Operating Regulations, for damages claims concerning inter or intra-regional MIF setting activities.

## **Payment Protection Insurance**

### *Payment Protection Insurance (excluding MBNA)*

The Group increased the provision for PPI costs by a further £746 million in the year ended 31 December 2018, bringing the total amount provided as at 31 December 2018 to £19,377 million.

The charge in 2018 related to a number of factors including higher than expected complaint volumes, which increased to approximately 13,000 per week, and associated administration costs, an increase in average redress per complaint, additional operational costs to deal with potential complaint volatility and continued improvements in data interrogation and the Group's ability to identify valid complaints. The remaining provision is consistent with an average of approximately 13,000 complaints per week to the industry deadline of the end of August 2019.

At 31 December 2018, a provision of £1,325 million remained unutilised relating to complaints and associated administration costs. Total cash payments were £1,853 million during the year ended 31 December 2018.

#### *Sensitivities*

The Group estimates that it has sold approximately 16 million PPI policies since 2000. These include policies that were not mis-sold and those that have been successfully claimed upon. Since the commencement of the PPI redress programme in 2011 the Group estimates that it has contacted, settled or provided for approximately 53 per cent. of the policies sold since 2000.

The total amount provided for PPI represents the Group's best estimate of the likely future cost. However a number of risks and uncertainties remain including with respect to future complaint volumes. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. There is also uncertainty around the impact of the regulatory changes, FCA media campaign and claims management company and customer activity, and potential additional remediation arising from the continuous improvement of the Group's operational practices.

For every additional 1,000 reactive complaints per week above 13,000 on average from January 2019 through to the industry deadline of the end of August 2019, the Group would expect an additional charge of approximately £85 million.

#### *Payment Protection Insurance (MBNA)*

As announced in December 2016, the Group's exposure is capped at £240 million, which is already provided for through an indemnity received from Bank of America. MBNA increased its PPI provision by £100 million in the year ended 31 December 2018, but the Group's exposure continues to remain capped at £240 million under the arrangement with Bank of America, notwithstanding this increase by MBNA.

#### *Libor and other trading rates*

In July 2014, Lloyds Banking Group announced that it had reached settlements totalling £217 million (at 30 June 2014 exchange rates) to resolve with UK and U.S. federal authorities legacy issues regarding the manipulation several years ago of Group companies' submissions to the British Bankers' Association LIBOR and Sterling Repo Rate. Lloyds Banking Group continues to cooperate with various other government and regulatory authorities, including the Swiss Competition Commission, and a number of U.S. State Attorneys General, in conjunction with their investigations into submissions made by panel members to the bodies that set LIBOR and various other interbank offered rates.

Certain Lloyds Banking Group companies, together with other panel banks, have also been named as defendants in private lawsuits, including purported class action suits, in the U.S. in connection with their roles as panel banks contributing to the setting of U.S. Dollar, Japanese Yen and Sterling LIBOR and the Australian BBSW Reference Rate. Certain of the plaintiffs' claims, have been dismissed by the U.S. Federal Court for Southern District of New York (subject to appeals).

Certain Lloyds Banking Group companies are also named as defendants in: (i) UK based claims; and (ii) in two Dutch class actions, raising LIBOR manipulation allegations. A number of the claims against the Group in relation to the alleged mis-sale of interest rate hedging products also include allegations of LIBOR manipulation.

It is currently not possible to predict the scope and ultimate outcome on Lloyds Banking Group of the various outstanding regulatory investigations not encompassed by the settlements, any private lawsuits or any related challenges to the interpretation or validity of any of Lloyds Banking Group's contractual arrangements, including their timing and scale.

#### *Packaged bank accounts*

The Group has provided a further £45 million in the year ended 31 December 2018 (£245 million was provided in the year ended 31 December 2017) in respect of complaints relating to alleged mis-selling of packaged bank accounts, raising the total amount provided to £795 million. A number of risks and uncertainties remain particularly with respect to future volumes.

#### *Arrears handling related activities*

The Group has provided an additional £151 million in the year ended 31 December 2018 for the costs of identifying and rectifying certain arrears management fees and activities, taking the total provided as at 31 December 2018 to £793 million. The Group has put in place a number of actions to improve its handling of customers in these areas and has made good progress in reimbursing arrears fees to impacted customers.

#### *Provisions for other legal actions and regulatory matters*

In the course of its business, the Group is engaged in discussions with the PRA, FCA and other UK and overseas regulators and other governmental authorities on a range of matters. The Group also receives complaints in connection with its past conduct and claims brought by or on behalf of current and former employees, customers, investors and other third parties and is subject to legal proceedings and other legal actions. Where significant, provisions are held against the costs expected to be incurred in relation to these matters and matters arising from related internal reviews. During the year ended 31 December 2018, the Group charged a further £561 million in respect of legal actions and other regulatory matters, and the unutilised balance at 31 December 2018 was £707 million (31 December 2017: £1,084 million).

#### *UK shareholder litigation*

In August 2014, Lloyds Banking Group and a number of former directors were named as defendants in a claim by a number of claimants who held shares in LTSB prior to the acquisition of HBOS, alleging breaches of duties in relation to information provided to shareholders in connection with the acquisition and the recapitalisation of LTSB. The defendants refute all claims made. A trial commenced in the English High Court on 18 October 2017 and concluded on 5 March 2018 with judgment to follow. It is currently not possible to determine the ultimate impact on Lloyds Banking Group (if any).

#### *Tax authorities*

Lloyds Banking Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed Lloyds Banking Group that their interpretation of the UK rules which allow the offset of such losses denies the claim. If HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities of approximately £770 million (including interest) and a reduction in Lloyds Banking Group's deferred tax asset of approximately £250 million (overall impact on Lloyds Banking Group of £910 million). Lloyds Banking Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due. There are a number of other open matters on which the Group is in discussion with HMRC (including the tax treatment of certain costs arising from the divestment of TSB Banking Group plc), none of which is expected to have a material impact on the financial position of the Group.

#### *Residential mortgage reposessions*

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases concerning certain aspects of Lloyds Banking Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA has been actively engaged with the industry in relation to these considerations and has published guidance on the treatment of customers with mortgage payment shortfalls. The guidance covers remediation for mortgage customers who may have been affected by the way firms calculate these customers' monthly mortgage instalments. Lloyds Banking Group has implemented the FCA guidance and has now contacted all affected customers.

#### *Mortgage arrears handling activities*

On 26 May 2016, Lloyds Banking Group was informed that an enforcement team at the FCA had commenced an investigation in connection with Lloyds Banking Group's mortgage arrears handling activities. This

investigation is ongoing and Lloyds Banking Group continues to cooperate with the FCA. It is not currently possible to make a reliable assessment of any liability that may result from the investigation including any financial penalty or public censure.

#### *HBOS Reading – Customer Review*

The Group has now completed its compensation assessment for all 71 business customers within the customer review, with more than 96 per cent. of these offers accepted. In total, more than £96 million has been offered of which £78 million has so far been accepted, in addition to £9 million for ex-gratia payments and £5 million for the reimbursements of legal fees.

The assessment followed the conclusion of a criminal trial in which a number of individuals, including two former HBOS employees, were convicted of conspiracy to corrupt, fraudulent trading and associated money laundering offences which occurred prior to the acquisition of HBOS by Lloyds Banking Group in 2009. The Group has provided a further £15 million in the year ended 31 December 2018 for customer settlements, raising the total amount provided to £115 million and is now nearing the end of the process of paying compensation to the victims of the fraud, including ex-gratia payments and re-imbursements of legal fees.

#### *HBOS Reading – FCA Investigation*

On 7 April 2017, the FCA announced that it had resumed its investigation into the events surrounding the discovery of misconduct within the Reading-based Impaired Assets team of HBOS. The investigation is ongoing and Lloyds Banking Group continues to cooperate with the FCA. It is not currently possible to make a reliable assessment of any liability that may result from the investigation including any financial penalty or public censure.

#### *Contingent liabilities in respect of other legal actions and regulatory matters*

In addition, during the ordinary course of business the Group is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the UK and overseas. All such material matters 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 at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. However the Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

### **Major Shareholders and Related Party Transactions**

#### ***Major Shareholders***

Based solely on the Schedule 13-G filed by BlackRock, Inc. with the SEC dated 5 February 2019, as at 31 December 2018, BlackRock, Inc. beneficially owned 6.5 per cent. (representing 4,598,344,792 ordinary shares) of the Company's issued ordinary share capital. Based solely on the Form TR-1 filed with the FCA dated 30 October 2018, as at 29 October 2018, Harris Associates LP beneficially owned 4.99 per cent. (representing 3,551,514,571 ordinary shares) of the Company's issued ordinary share capital. Further information on HM Treasury's previous shareholding in the Company is provided in "History and Development of Lloyds Banking Group".

As at 15 February 2019, the Company had 2,398,282 registered ordinary shareholders. The majority of the Company's ordinary shareholders are registered in the United Kingdom. 2,393,491,489 ordinary shares, representing 3.36 per cent. of the Company's issued share capital, were held by BNY Mellon as depositary for the ordinary share American Depositary Share Programme through which there were 186 record holders.

Additionally, the majority of the Company's preference shareholders are registered in the United Kingdom, with a further one record holder with an address in the United States registered through the Company's preference share American Depositary Share Programme.

All shareholders within a class of the Company's shares have the same voting rights.

### ***Related Party Transactions***

The Group, as at 31 December 2018, had related party transactions with 20 key management personnel, certain of its pension funds, collective investment schemes and joint ventures and associates.

### **Directors of the Issuer**

The Directors of 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 Issuer, are as follows:

<b>Name</b>	<b>Principal outside activities</b>
<b>Non-Executive Directors</b>	
<b>Lord Blackwell</b> Chairman	Governor of the Yehudi Menuhin School and a member of the Governing Body of the Royal Academy of Music.
<b>Sarah Bentley</b> Independent Director	None
<b>Alan Dickinson</b> Independent Director	Chairman of Urban&Civic plc.
<b>Anita Frew</b> Deputy Chairman and Independent Director	Chairman of Croda International Plc and a Non-Executive Director of BHP Billiton.
<b>Brendan Gilligan</b> Independent Director	Non-Executive Director of Cabot Credit Management Group Limited and Cabot UK Holdco Limited.
<b>Simon Henry</b> Independent Director	Non-Executive Director of Rio Tinto plc and Rio Tinto Limited, Chairman of the Audit Committee of Rio Tinto plc, Independent Director of PetroChina Company Limited, Member of the Defence Board and Chair of the Defence Audit Committee, UK Government, Member of the Advisory Panel of CIMA and of the Advisory Board of the Centre for European Reform.
<b>Nigel Hinshelwood</b> Senior Independent Director	Non-Executive Director of Nordea Bank AB, Chairman of the Risk Committee and a member of the Operations and Compliance Committee for Nordea Bank AB. Non-Executive Director of Lloyds of London and a member of the Risk Committee and Innovation Committee for Lloyds of London.
<b>Lord Lupton CBE</b> Independent Director and Chairman of Lloyds Bank Corporate Markets plc	Senior Advisor to Greenhill Europe and Chairman of the Trustees of the Lovington Foundation.

<b>Name</b>	<b>Principal outside activities</b>
<b>Amanda Mackenzie OBE</b> Independent Director	Chief Executive of Business in the Community – The Prince's Responsible Business Network, a Life Fellow of the Royal Society of Arts and Fellow of the Marketing Society.
<b>Nick Prettejohn</b> Independent Director and Chairman of Scottish Widows Group	Chairman of Reach plc (formerly Trinity Mirror plc) and of their Nomination Committee, Chairman of the Royal Northern College of Music and a member of the Board of Opera Ventures.
<b>Stuart Sinclair</b> Independent Director	Senior Independent Director and Chair of the Risk and Capital Committee at QBE UK Limited (formerly QBE Insurance (Europe) Limited).
<b>Sara Weller CBE</b> Independent Director	Non-Executive Director of United Utilities Group and Chair of their Remuneration Committee and a member of their Nomination Committee, Lead Non-Executive Director at the Department for Work and Pensions, a Governing Council Member of Cambridge University and Trustee of Lloyds Bank Foundation for England and Wales.
<b>Executive Directors</b>	
<b>António Horta-Osório</b> Executive Director and Group Chief Executive	Non-Executive Director of EXOR N.V., Fundação Champalimaud and Sociedade Francisco Manuel dos Santos in Portugal, a member of the Board of Stichting INPAR Management/Enable and Chairman of the Wallace Collection.
<b>George Culmer</b> Executive Director and Chief Financial Officer	None.
<b>Juan Colombás</b> Executive Director and Chief Operating Officer	Member of the Practitioner Panel of the Financial Conduct Authority.

None of the directors of the Issuer, except for Stuart Sinclair and Lord Lupton, has any actual or potential conflict between their duties to the Issuer and their private interests or other duties as listed above. Stuart Sinclair is Senior Independent Director at QBE UK Limited (formerly QBE Insurance (Europe) Limited), a general insurance and reinsurance company. Lord Lupton is a senior advisor to Greenhill Europe, an investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Board has recognised that potential conflicts may arise as a result of these positions. The Board has authorised the potential conflicts and requires Mr. Sinclair and Lord Lupton to recuse themselves from discussions, should the need arise.

## THE LLP

Lloyds Bank Covered Bonds LLP (formerly known as 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, with Lloyds Bank plc and Lloyds Bank Covered Bonds (LM) Limited (the **Liquidation Member**) as its Members. The LLP changed its name from Lloyds TSB Covered Bonds LLP to Lloyds Bank Covered Bonds LLP on 23 September 2013.

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 Bank plc 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, 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:

Name	Registered Office
Lloyds Bank Covered Bonds (LM) Limited	35 Great St. Helen's, London EC3A 6AP
Lloyds Bank plc	25 Gresham Street, London EC2V 7HN

The directors of each of Lloyds Bank plc and Lloyds Bank Covered Bonds (LM) Limited are set out below.

### Directors of Lloyds Bank Covered Bonds (LM) Limited

The following table sets out the directors of Lloyds Bank Covered Bonds (LM) Limited and their respective businesses addresses and occupations at the date of this Prospectus.

Name	Business Address	Business Occupation
Intertrust Directors 1 Limited	35 Great St. Helen's, London, EC3A 6AP	Corporate company director of special purpose companies
Intertrust Directors 2 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate company director of special purpose companies
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director



Further, the directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their principal activities or business occupations are:

<b>Name</b>	<b>Business address</b>	<b>Principal Activities</b>
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director
Michelle O'Flaherty	35 Great St. Helen's, London EC3A 6AP	Director
Clive Short	35 Great St. Helen's, London EC3A 6AP	Director
Andrea Williams	35 Great St. Helen's, London EC3A 6AP	Director

#### **Directors of Lloyds Bank plc**

The directors of Lloyds Bank plc are set out under "*Lloyds Banking Group – Directors*" above.

No potential conflicts of interest exist between any duties to the LLP of the directors of the Members, as described above, and their private interests or other duties in respect of their management roles.

#### **LLP Management Board**

The Members have appointed the LLP Management Board to act on all matters relating to the LLP, other than those specific matters which require the unanimous decision of the Members (as set out in the LLP Deed). Any decision by the LLP Management Board relating to the admission of a New Member, any change in the LLP's business, any change to the LLP's name and any decision not to indemnify the LLP, will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

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	Gavin Parker	Head of Securitisation and Collateral, Group Corporate Treasury, Lloyds Banking Group
Member of the Management Board	Peter Green	Head of Public Senior Funding & Covered Bonds, Lloyds Banking Group Corporate Treasury
Member of the Management Board	Richard Shrimpton	Group Capital Markets Issuance Director, Lloyds Banking Group
Member of the Management Board	Tracey Hill	Head of Securitisation, Lloyds Banking Group plc

The business address of all the members of the LLP Management Board listed above with the exception of Tracey Hill is 10 Gresham Street, London EC2V 7AE. The business address of Tracey Hill is Lovell Park Road, Leeds LS1 1NS.

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 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 Bank plc or Lloyds Bank plc disposing of any of the shares of Lloyds Bank Covered Bonds (LM) Limited (such that it ceases to hold at least 20 per cent. of Lloyds Bank Covered Bonds (LM) Limited without any necessary consents), Lloyds Bank 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.

## 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 and to which the Australian Bond Trustee became a party on or about 8 May 2019, 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 (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 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 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 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, 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 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, Receiptholders 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 (*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.

#### *Fees and expenses*

The LLP, will pay certain fees to the Bond Trustee and will reimburse it for all its costs and expenses properly incurred in acting as Bond Trustee and in addition shall indemnify it in respect of all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses suffered as a result of the Issuer (or, following service of a Notice to Pay on the LLP, the LLP) failing to perform any of its obligations under the Transaction Documents.

Any remuneration, costs and expenses paid by the LLP to the Bond Trustee shall be paid subject to and in accordance with the relevant Priorities of Payments, as applicable.

Neither the Issuer nor the LLP will be responsible under the Trust Deed for any liabilities, losses, damages, costs or expenses resulting from the fraud, gross negligence or wilful default on the part of the Bond Trustee or any of its officers, employees and advisers.

#### *Retirement and removal*

The Bond Trustee may retire at any time on giving not less than three months' prior written notice to the Issuer, the LLP and the Security Trustee. The Covered Bondholders may by Extraordinary Resolution of all the Covered Bondholders of all Series taken together as a single Series remove any Bond Trustee. The retirement or removal of the Bond Trustee who is the sole Bond Trustee shall not become effective until a successor bond trustee is appointed.

#### *Governing law*

The Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by, and are to be construed in accordance with, English law.

### **Australian Deed Poll**

The Australian Deed Poll made by the Issuer on or about 8 May 2019 is the principal document governing the A\$ Registered Covered Bonds. The Australian Deed Poll contains provisions relating to, *inter alia*; (i) the constitution of the A\$ Registered Covered Bonds including the irrevocable undertaking by the Issuer to, and for the benefit of, the Australian Bond Trustee and each A\$ Covered Bondholder that it shall pay and perform its obligations under the A\$ Registered Covered Bonds; (ii) enforcement with respect to the A\$ Registered Covered Bonds; and (iii) the transfer restrictions applicable to the A\$ Registered Covered Bonds.

The Australian Deed Poll is governed by, and construed in accordance with, the laws applying in the State of New South Wales, Australia.

### **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 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 following service of a Notice to Pay remains outstanding* 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, Lloyds Bank plc (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 relevant Originator 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 or the BOS Power of Attorney (in respect of the Halifax Loans included in the Portfolio)) on or before the 20th London Business Day after the earliest to occur of:

- (a) service of a Notice to Pay (unless the Seller or BOS 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 or BOS;

- (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 or BOS 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, or BOS as the case may be, 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 or BOS calling for perfection by serving notice in writing to the LLP and the Security Trustee;
- (g) the date on which the Seller or BOS 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 or BOS.

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 relevant Originator 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, BOS or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller or BOS 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. BOS will similarly undertake, in the Intercompany Mortgage Sale Agreement, 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 UK);
- 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 made on a case by case basis 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, commissions 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 individuals (and not partnerships) 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 the relevant Mortgage;
- no loan is 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 12 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 (a) instructed its solicitor or licensed conveyancer 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 its behalf 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; and (b) received a Certificate of Title from the solicitor or licensed conveyancer or (in Scotland) qualified conveyancer referred to in paragraph (a)

relating to the Property, the contents of which were such as would have been acceptable to a Reasonable, Prudent Mortgage Lender at that 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 Originator 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 warrandice or as beneficial owner, as the case may be;
- either the Seller or 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).

The pre-emption rights offered to the Seller (as described above) are extended to BOS but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default", and in such circumstances, the right of pre-emption offered to BOS will apply to all Selected Loans and their Related Security regardless of whether they are Halifax Loans or not.

#### *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; 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 Seller may from time to time purchase mortgages originated by another originator which it may on-sell to the LLP in accordance with the Mortgage Sale Agreement.

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**

On the Programme Date, C&G was appointed by the LLP as servicer of the Loans in the Portfolio pursuant to the terms of the Servicing Agreement to administer the Loans and their Related Security in the Portfolio.

Pursuant to the Deed of Novation, C&G transferred its role as Servicer to Lloyds Bank plc on 20 April 2012. Currently, Lloyds Bank plc has delegated such functions to BOS (in respect of Halifax Loans) as sub-servicer to continue to perform such duties under the Servicing Agreement. Lloyds Bank plc is not released or discharged from any liability as a result of such delegation and remains liable for the performance or non-performance or breach by BOS as sub-servicer of the duties so delegated by Lloyds Bank plc.

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 or BOS (in respect of the Halifax Loans); and
- (b) in accordance with the Originator'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;
- 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 instructions for the monies received from such Borrower to be credited to the GIC Account on the next London Business Day. 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 Authorities such information on the composition of the Loans and their Related Security contained in the Portfolio and/or such other information as the Authorities 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 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 Discretionary Rates*

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 Bank Standard Variable Rate or the Halifax Standard Variable Rate (in respect of those Halifax Loans included in the Portfolio) which applies to Loans beneficially owned by the Seller or BOS (in respect of the Halifax Loans) outside the Portfolio; or
- (b) any other discretionary rate (together with the Standard Variable Rate, 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 or BOS 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 Priorities 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 Bank Standard Variable Rate and/or the Halifax Standard Variable Rates and/or Discretionary Rates or margins of the Seller or BOS, as the case may be.

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 Rates 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 Bank Standard Variable Rate and/or the Halifax 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 the CCA and with a management team with experience of administering residential mortgages in the UK 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 act as asset pool monitor (as defined in the RCB Regulations) and 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 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 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 Priorities 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 Authorities 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 (*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 Authorities 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). As at the date of this Prospectus, the Issuer has notified the Security Trustee in accordance with the terms of the LLP Deed that the percentage referred to above is 0.6 per cent.;
- 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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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:

$$\text{the Principal Amount Outstanding of the relevant Series of Covered Bonds} \times (1 + \text{Negative Carry Factor} \times (\text{days to maturity of the relevant Series of Covered Bonds} / 365))$$

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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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 or BOS (but only after the occurrence of any of the events set out in paragraphs (c) or (f) of the definition of "Issuer Event of Default") 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 U.S. (directly or through agents) or derive any income from the U.S. sources as determined under the U.S. 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 U.S.;
- (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 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. On 20 April 2012, C&G novated its role as Cash Manager to Lloyds Bank plc pursuant to the Deed of Novation.

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 Authorities 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 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 Bank Standard Variable Rate or the Halifax Standard Variable Rate or linked to an interest rate other than the Lloyds Bank Standard Variable Rate or the Halifax 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 may 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 from the Interest Rate Swap, the LLP may 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 will be governed by a **Covered Bond Swap Agreement** with each such Covered Bond Swap Provider that only governs Covered Bond Swaps related to the relevant Series of Covered Bonds (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 (where the relevant Series or Tranche is denominated in a currency other than Sterling) 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 (which may include taking no 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 transferred to 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 Intertrust Management Limited (formerly known as 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*.

#### *Fees and expenses*

The Issuer and, after the service of a Notice to Pay on the LLP, the LLP, will pay certain fees to the Security Trustee and will reimburse it for all its costs and expenses properly incurred in acting as Security Trustee and in addition shall indemnify it in respect of all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses suffered as a result of the Issuer (or, following service of a Notice to Pay on the LLP, the LLP) failing to perform any of its obligations under the Transaction Documents.

Any remuneration, costs and expenses paid by the LLP to the Security Trustee shall be paid subject to and in accordance with the relevant Priorities of Payments, as applicable.

The Security Trustee may, in certain circumstances undertake duties of an exceptional nature or otherwise outside the scope of its normal duties as set out in the Deed of Charge, in which case the Issuer or the LLP shall pay to the Security Trustee such additional remuneration as shall be agreed between the Security Trustee and the LLP.

Neither the Issuer nor the LLP will be responsible under the Deed of Charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, gross negligence or wilful default on the part of the Security Trustee or any of its officers, employees and advisers.

#### *Retirement and removal*

The Security Trustee may retire at any time upon giving not less than three calendar months' prior notice to the LLP, provided, however, that the retirement or removal of any Security Trustee shall not become effective unless there remains at least one Security Trustee in office upon such retirement or removal. The power of appointing a new Security Trustee and removing the Security Trustee or any new Security Trustee shall be vested in the LLP, provided that such appointment or removal must be approved by (i) an Extraordinary Resolution of the Covered Bondholders of all Series taken together as a single Series and (ii) each Secured Creditor. Any appointment of a new Security Trustee and any retirement or removal of an existing Security Trustee under the Deed of Charge shall as soon as practicable thereafter be notified by the LLP to the Secured Creditors.

#### *Governing Law*

The Deed of Charge is governed by English law (other than the assignment 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).

### **Intercompany Mortgage Sale Agreement**

Halifax Loans and their Related Security will be sold by BOS to Lloyds Bank plc from time to time pursuant to the terms of the Intercompany Mortgage Sale Agreement entered into on or about 20 April 2012 between Bank of Scotland plc, Lloyds Bank plc, the LLP and the Security Trustee. Lloyds Bank plc may from time to time then on-sell such Halifax Loans and their Related Security to the LLP in accordance with the terms of the Mortgage Sale Agreement.

#### *Transfer of title of the Halifax Loans to Lloyds Bank plc*

English Loans which are Halifax Loans will be sold by BOS to Lloyds Bank plc by way of equitable assignment. Scottish Loans which are Halifax Loans will be sold by BOS to Lloyds Bank plc by way of a Scottish Declaration of Trust, on the first date such Scottish Loans which are Halifax Loans are sold by BOS to Lloyds Bank plc and, in relation to Scottish Loans which are Halifax Loans sold by BOS to Lloyds Bank plc after such first sale date, by further Scottish Declarations of Trust under which the beneficial interest in such Scottish Loans which are Halifax Loans will be transferred to Lloyds Bank plc. In relation to Scottish Loans which are Halifax Loans, references in this document to a sale or equitable assignment of Halifax Loans or to Halifax 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 which are Halifax Loans. For the avoidance of doubt, in relation to Scottish Loans which are Halifax Loans, references in this document to a legal assignment of Halifax Loans or to Halifax Loans having been legally assigned are to be read as references to the granting of assignments of such Scottish Loans which are Halifax Loans pursuant to the Intercompany Mortgage Sale

Agreement. The beneficial title to all of the Halifax Loans and their Related Security (as opposed to the legal title) cannot be registered at the Land Registry or, as applicable, recorded in the Registers of Scotland. As a result, legal title to all of the Halifax Loans and their Related Security will remain with BOS until legal assignments or assignations (as appropriate) are effected by BOS to Lloyds Bank plc or, as the case may be, the LLP and notice of the sale is given by BOS to the underlying borrowers. Legal assignment or assignation (as appropriate) of the Halifax Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to Lloyds Bank plc or, as the case may be, the LLP will be deferred and will only take place in the limited circumstances described in the paragraph below. The Intercompany Mortgage Sale Agreement provides that, in the limited circumstances described in the paragraph below, where Lloyds Bank plc has given notice to BOS that Lloyds Bank plc has on-sold such Halifax Loans and their Related Security to the LLP under the terms of the Mortgage Sale Agreement, legal assignment or assignation (as appropriate) of such on-sold Halifax Loans and their Related Security will be made directly to the LLP (rather than Lloyds Bank plc).

The assignments, assignations, transfers or conveyances (as appropriate) of the Halifax Loans and their Related Security to Lloyds Bank plc shall be perfected by BOS or (pursuant to powers granted under the BOS Power of Attorney) Lloyds Bank plc or (where certain Halifax Loans and their Related Security have been sold by Lloyds Bank plc to the LLP in accordance with the Mortgage Sale Agreement) the LLP and/or the Security Trustee, as the case may be, on or before the 20th London Business Day after the earliest to occur of:

- (a) any of BOS, the LLP or the Security Trustee being required to perfect legal title to the Halifax Loans and their Related Security, or procure any or all of the acts referred to in Clause 6 of the Intercompany Mortgage Sale Agreement, by an order of a court of competent jurisdiction, or by a regulatory authority to which the BOS is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for BOS to comply;
- (b) it becoming necessary by law to take such actions;
- (c) BOS calling for perfection by serving notice in writing to that effect on Lloyds Bank plc and/or the LLP and the Security Trustee, where BOS has been notified by Lloyds Bank plc of the assignment or transfer by Lloyds Bank plc of its rights in the relevant Mortgages to the LLP in accordance with the Mortgage Sale Agreement;
- (d) the date on which the Seller or BOS 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
- (e) the occurrence of either an Insolvency Event in relation to the Seller or BOS.

Pending completion of the transfer, the right of Lloyds Bank plc (or the LLP, where Lloyds Bank plc has on-sold such Halifax Loans to the LLP in accordance with the terms of the Mortgage Sale Agreement) to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Loans will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by BOS in favour of Lloyds Bank plc and (but only in respect of those Halifax Loans and their Related Security which have been subsequently sold to the LLP in accordance with the terms of the Mortgage Sale Agreement) 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 BOS or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for BOS in connection with the creation of the Halifax 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. BOS 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.

The Intercompany 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).

## 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.

In addition, the Issuer is required to comply with certain statutory tests pursuant to the RCB Regulations, as to which see further "*Description of the UK Covered Bond Regime*".

### 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 UK 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 and BOS 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 relevant Originator, (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.

The Issuer is additionally required to ensure that the principal amount of the eligible property in the Asset Pool is greater than 108 per cent. of the Principal Amount Outstanding of the Covered Bonds in accordance with the terms of the RCB Regulations. The Issuer must also ensure that over a twelve month period the interest received on the eligible property must be equal to or greater than interest due on the Covered Bonds. See further "*Description of the UK Regulated Covered Bond Regime*".

### **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) thereof 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 Authorities in respect of fees owed to the Authorities 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 paragraph (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 paragraph (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 paragraph (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 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 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 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 moneys 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 Authorities in respect of fees owed to the Authorities 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 moneys 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 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 moneys 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 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 moneys, interest and costs and the right to sue on all covenants and undertakings made or expressed to be made in favour of the relevant Originator 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 relevant Originator 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 relevant Originator;
- (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 relevant Originator 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 relevant Originator 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 relevant Originator or to which the relevant Originator is entitled under 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 Originators since the time of Origination*.

## Introduction

The following is a description of some of the characteristics of the loans currently or previously originated by the relevant Originator including details of loan types, the underwriting process, Lending Criteria and selected statistical information.

Unless otherwise indicated, the description that follows relates to types of Loans that have been or could be sold to the LLP and form part of the Portfolio from time to time. It should be noted that the Seller retains the right to repurchase any of the Loans from time to time in accordance with the terms of the Mortgage Sale Agreement and, in certain circumstances, is required to repurchase specific Loans.

The Originators reserve the right to amend their Lending Criteria and the Seller reserves the right to sell to the LLP New Loans which are based upon Mortgage Conditions different from those upon which Loans forming the Portfolio as at any date are based. Those New Loans may include loans which are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans

with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All New Loans will be required to comply with the representations and warranties set out in the Mortgage Sale Agreement from time to time and all the material representations and warranties in the Mortgage Sale Agreement are described in this Prospectus. See *Summary of the Principal Documents – Mortgage Sale Agreement*.

References in this section to the Originator performing any obligations or taking any steps in relation to the administration of loans will include circumstances in which any other member of the Lloyds Banking Group performs such obligations or takes such steps, on behalf of the Originator.

### Characteristics of the loans

#### *Repayment terms*

The Loans in the Portfolio are one of the following:

- **repayment loans:** the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid;
- **interest-only loans:** the borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and is payable in one lump sum; or
- a combination of both these options.

In the case of either repayment loans or interest-only loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For interest-only loans (other than loans advanced under the Retirement Interest Only scheme or the Retirement Home Plan scheme formerly offered by BOS), because the principal is repaid in a lump sum at the maturity of the loan, the borrower is and has always been required to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term. The Seller has procedures to verify that a repayment mechanism is in place but it does not take security over these repayment mechanisms.

Principal prepayments may be made in whole or in part at any time during the term of a loan, subject to the payment of any early repayment charges (as described in *Early repayment charges* below). A prepayment of the entire outstanding balance of all loans under a mortgage account discharges the mortgage. Any prepayment must be made in full together with all accrued interest, arrears of interest, any unpaid expenses (such as insurance premiums and fees) and any applicable early repayment charges(s).

#### *Payment methods*

All payments on the loans must be made in sterling and the majority of the payments are made by direct debit from a bank or building society account.

#### *Interest payments and interest rate setting*

The Originators have responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing customers. The loans in the portfolio are one of or a combination of the following types of loans and the Originators are able to combine these to suit the requirements of the borrower:

- **Fixed Rate Loans** are loans where the interest rate payable by the borrower is fixed for an initial period or for the life of the loan.
- **Tracker Loans** are loans which are subject to an interest rate linked to an external rate such as the Bank of England's official Bank Rate as set by the UK Monetary Policy Committee. The interest rate will be set at a fixed margin above or below, or the same rate as, the official Bank Rate and may be fixed for a certain period of time or for the life of the loan.
- **Discretionary Rate Loans** are loans subject to the Seller's Standard Variable Rate or other Discretionary Rates. The current Discretionary Rates of the Seller and BOS, for loans originated under the Halifax brand, are the "Lloyds Bank Homeowner Variable Rate" and the "Halifax Homeowner Variable Rate", respectively. The Originators may introduce other Discretionary Rates in the future.

- **Discounted Discretionary Rate Loans** are loans which allow the borrower to pay interest at a specified discount to a Discretionary Rate.

The rate of interest for Fixed Rate Loans, and for certain Tracker Loans and Discounted Discretionary Rate Loans, applies for a pre-determined period (the **Product Period**). For other Tracker Loans and Discounted Discretionary Rate Loans, the rate of interest may apply for the life of the loan. At the end of the Product Period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to a Discretionary Rate. In certain instances, early repayment charges are payable by the borrower if the loan is repaid in part or in full within the Product Period. See *Early repayment charges* below.

All mortgages originated since 2001 have featured interest calculated on a daily basis rather than on an annual basis. Any payment by the borrower will reduce the borrower's balance on which interest will be calculated with effect from the following day. Prior to this date, all mortgage products had carried interest calculated on an annual basis. Borrowers with existing loans on which interest is calculated on an annual basis are able to change and have their interest calculated on a daily basis, subject to the terms and conditions of their existing loan and to the borrower entering into an agreement.

If the Originator wishes to increase the interest rate on loans originated by Lloyds Bank and governed by mortgage conditions prior to the C&G 2010 Mortgage Conditions, it must first give notice to the borrower of the increase. The borrower may then repay the loan without paying interest at the increased rate if the borrower provides at least seven days' notice of the intention to repay within three months of the Originator giving the notice of the increase, and the borrower repays the loan (or the part of it which is affected by the increase) together with any early repayment charge and any unpaid interest and expenses.

Under the 2011 Mortgage Conditions the Originator has the right to reduce the interest rate (referred to as the lender variable rate in the Mortgage Conditions) for any reason and to increase the interest rate for a number of specified reasons:

1. *Change to the Originator's cost of lending:* the Originator has costs in raising the money lent to its "residential mortgage" customers. If these costs change, or the Originator knows they are about to change, the Originator can change a lender variable rate in proportion to the change in costs;
2. *Change to laws and regulations:* The Originator follows laws and regulations. Such laws and regulations may change or the Originator might know that they are about to change. If the change in laws and regulations means the Originator should change a lender variable rate, the Originator will do so. If there is a change to the Originator's cost of following laws and regulations, as a result of a change to them, the Originator can also change a lender variable rate in proportion to the change in cost.

Additionally the 2011 Mortgage Conditions state that the Originator can charge the borrower one or more added rates if it is agreed in the offer letter or an added rate becomes payable if the borrower lets their property or changes its use without the Originator's permission. Where this occurs, the Originator can reduce or stop charging an added rate at any time. The Originator can also increase an added rate for the same reasons as the Originator can increase a lender variable rate (see above). The Originator will not, however, increase an added rate as a result of a change to the Originator's cost of lending or the Originator's cost of following laws and regulations, if the Originator has already increased another rate that applies to the same part of what the Borrower owes for the same reason. Sometimes those reasons may allow the Originator to increase the added rate at a different time or by a different amount from a change to a lender variable rate. The Originator will give the Borrower notice before they change an added rate.

During the course of its mortgage origination business, the Originators have originated loans under a number of standard conditions which have been sequentially superseded by the 2011 Mortgage Conditions. The 2011 Mortgage Conditions represent the current terms and conditions on which mortgage business is transacted by the Originators and dictate the specified reasons to change the interest rate. The 2011 Mortgage Conditions set out the current policy of the Originators in this regard, such policy applying equally to all loans of the Originators, regardless of the date of origination except where the interest rate provisions are more onerous in previous versions.

In respect of new Discretionary Rate Loans that are sold to the LLP in the future, the Servicer will also be responsible for setting any variable rates. However, in maintaining, determining or setting these variable rates, except in the limited circumstances as set out in the Servicing Agreement, the Servicer has undertaken to maintain, determine or set the variable rates at a level which is not higher than the variable rates set in accordance with the Originator's policy from time to time.

### *Early repayment charges*

The borrower may be required to pay an early repayment charge if certain events occur during the predetermined Product Period and the mortgage offer states that the borrower is liable for early repayment charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the relevant Originator and the borrower to switch to a different mortgage product. If all or part of the principal owed by the borrower, other than the scheduled monthly payments, is repaid before the end of the Product Period, the borrower will be liable to pay to the relevant Originator all or part of the early repayment charge based on a percentage of the amount repaid or switched to another product. If the borrower has more than one product attached to the mortgage, the borrower may choose under which product the principal repayment should be allocated.

The Originators currently permit borrowers to repay up to 10% of the loan balance in addition to scheduled payments in any calendar year without having to pay an early repayment charge, though the Seller may withdraw this concession at its discretion. The Originators currently have a policy not to charge the early repayment charge in certain circumstances, for example if the repayment is due to the death of the borrower.

Some of the loans offered by the Originators include a cashback, under which the borrower is offered a sum of money usually paid on completion of the loan. The incentive may take the form of a fixed amount, a percentage of the loan amount or a combination of the two. Where any loan is subject to a cashback, if there is an unscheduled principal repayment or a product switch (as described in *product switches* below), in either case before a date specified in the offer, then an early repayment charge may be payable by the Borrower.

Some mortgage products do not include any provisions for the charging of an early repayment charge to the borrower.

### *Overpayments and underpayments*

Borrowers may repay up to 10 per cent. of their loan in any calendar year without incurring a repayment charge.

If Borrowers pay more than the scheduled monthly payment, the balance on their mortgage account will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrowers must pay.

Borrowers may underpay to the extent of previous overpayments. Underpayments are rolled up and added to the mortgage, and must be repaid over the remaining life of the mortgage unless it is otherwise agreed by the Seller and the Borrower to extend the mortgage term.

### *Payment Holidays*

The Seller offers payment holidays, during which a Borrower may suspend mortgage payments. This option may be exercised, upon the Seller's agreement, for one or two months at any one time up to a maximum of six months during the life of the mortgage (maximum of one payment holiday comprising of no more than two months every 3 years). The payment holiday option does not include any insurance premiums.

In order to qualify, the mortgage cannot be a building mortgage and more than one month in arrears when the payment holiday is applied for and no payment arrangement may be either currently in force or have been in force within the last six months. Additionally, at least twelve months must have elapsed since the date of the initial advance to the Borrower and the Borrower cannot have arranged without the consent of the Seller to let the Property, or taken any further lending within the last six months.

Furthermore, the Borrower can neither be currently applying for, or in receipt of, income support, nor in receipt of amounts to pay the mortgage under a mortgage repayments insurance policy at the time of the application. The Borrower may not borrow any further money from the Seller during the course of the payment holiday.

Payments deferred under the payment holiday are rolled up and added to the mortgage and must be repaid over the remaining life of the mortgage, unless the Seller and the Borrower agree to amend the mortgage term. The Seller will provide the Borrower with a new scheduled monthly payment based on the new amount owed. The total debt must not exceed 75 per cent. of the value of the Property at the time of application and must comply with the Seller's normal lending limits.

### *Further Advances*

If a borrower wishes to take out a further loan secured by the same mortgage, the borrower will need to make a Further Advance application and the relevant Originator will use the Lending Criteria applicable to Further

Advances at that time in determining whether to approve the application. The original mortgage deed or standard security is expressed to cover all amounts due under the relevant loan which would cover any Further Advances. All Further Advances require the postponement of any second charge or standard security.

### *Product Switches*

From time to time, borrowers may request or the relevant Originator may send an offer of a variation in the financial terms and conditions applicable to the borrower's loan. In limited circumstances, if a Loan is subject to a Product Switch as a result of a variation, then the Seller will be required to repurchase the Loan or Loans and their Related Security from the LLP. Those limited circumstances are that, as at the relevant date, any of the Representations and Warranties in relation to that Loan, as described in *Summary of the Principal Documents – Mortgage Sale Agreement*, would be breached upon the making of that Product Switch. See further *Summary of the Principal Documents – Mortgage Sale Agreement*.

In certain circumstances, if the relevant Originator is notified that a borrower, following the making of the loan, intends to let its property, the relevant Originator will consider this request and may grant consent to let. If granted, the relevant Originator may require the borrower to switch to a product from its Consent to Lease product range.

### **Origination channels**

The Originators currently derive their mortgage-lending business through the BOS, Halifax and Lloyds Bank branch networks throughout the UK, through intermediaries (BOS only) and from internet and telephone sales.

Covered Bondholders should be aware that in the future loans originated by another member of the Lloyds Banking Group may be included in the Portfolio, subject to the satisfaction of certain conditions.

### **Right to buy loans**

The Portfolio may include Right To Buy Loans, each being a loan entered into by the relevant borrower as a means to purchase, refinance or improve a residential property from a local authority or certain other social landlords (each a **landlord**) under the "right to buy schemes" governed by the **Right To Buy Legislation** (being the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001) (in the case of Scottish Mortgages). Properties sold under these schemes are sold by the landlords at a discount to market value calculated in accordance with the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987 (as amended). A purchaser under these schemes must, if he sells the property within three years (or in cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, five years) (the **RTB disposal period**), repay a proportion of the discount he received or, in England and Wales only, the resale price (the **resale share**) to the landlord. The landlord obtains a statutory charge (or, in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the relevant scheme to repay the resale share. In England and Wales, the statutory charge ranks senior to other charges, including that of any mortgage lender, unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 or (ii) the relevant local authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes. In Scotland, where the landlord secures the contingent liability to repay the resale share, the standard security will, notwithstanding the usual statutory ranking provisions, have priority immediately after any standard security granted in security of a loan either to purchase or improve the relevant property plus interest and expenses and, if the landlord consents, a standard security over the relevant property securing any other loan.

The Seller is an approved lending institution under the Housing Act 1985. The Seller will, in the mortgage sale agreement, warrant that all mortgages or standard securities originated by it and have (or the Seller has the evidence necessary to ensure that the mortgages will have) priority over any statutory charge or standard security in favour of the relevant landlord, save in cases where the loan is made at a time where there is no more than one year remaining of the RTB disposal period (in which case, the Seller's view is that if it has to enforce, it

is likely that the RTB disposal period will have expired by the time it sells the relevant property so the statutory charge or standard security will have ceased to subsist) or where adequate insurance is in place.

The Seller usually obtains the relevant landlord's approval for loans for "approved purposes" retrospectively rather than in advance of making a loan because of the delays inherent in seeking that approval. Until that approval is given, the relevant advance ranks (in England and Wales) behind the statutory charge.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the Seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market. The right-to-buy scheme in Scotland came to an end for all council and housing association tenants in Scotland on 1 August 2016 (with a closing deadline for applications of 31 July 2016).

### **Help to Buy loans**

The Portfolio may include loans which have the protection of the UK Help to Buy Scheme. In March 2013, the UK Government announced the Help to Buy Scheme involving two separate proposals to assist home buyers. The first allowed lenders to purchase a guarantee on the top-slice of a mortgage meaning that the UK Government will compensate the lender for a proportion of the net losses suffered in the event of repossession. The guarantee will apply down to 80% of the purchase value of the property (i.e. up to 20% of the value is guaranteed). The guarantee will compensate lenders for the same losses and reasonable costs that the lender is entitled to recover from the borrower, in the event of foreclosure but the lenders will take a 5% share of the net losses above the 80% threshold. The Originators are subject to certain limits in respect of the aggregate amount they can claim under the Help to Buy Scheme for all loans originated by them (regardless of whether such loans have been transferred to the LLP). Characteristically, the Help to Buy loans will have a higher LTV than other loans included in the Portfolio and as such, although the Issuer will pass on some of the benefit of the guarantee to the LLP (although the benefit of the guarantee cannot be assigned to the LLP), given that the maximum amount which may be claimed by the Seller under the guarantee is capped, the guarantee may not cover all amounts in respect of the loss on a specific loan. However, the Asset Coverage Test will only assign a maximum value for the loan of up to 75% Indexed LTV, regardless of whether the loan has the benefit of the Help to Buy Scheme. The second scheme was open to both first time buyers and home movers on new-build homes in England and involved the UK Government providing such home buyers with an equity loan for up to 20% of the property price.

### **Underwriting**

An automated credit decisioning system (incorporating scorecards and rules) is used by the Seller as the primary tool for assessing a loan application. Manual sanctioning, by an independent underwriting unit, is used to complement the automated decision where there is insufficient information for the automated decision to be robust or information needs additional scrutiny e.g. certain self-employed cases. These underwriters are experienced specialists in this area and use their knowledge to make decisions on such loan applications based on the lending mandates they hold and the risk to the Seller.

All mortgage decisions, whether completed through automated or manual decisioning, are subject to internal monitoring by the Seller in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

### ***Lending Criteria***

On each Sale Date, the Seller shall represent that each Loan being sold to the LLP was originated according to the relevant Lending Criteria of the Originator, as the case may be, at the time the Loan was offered, which included some or all of the criteria set out in this section, in all material respects, subject only to exceptions made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender. New Loans may only be included in the Portfolio if they are originated in accordance with the Lending Criteria applicable at the time the Loan is offered and are compliant with the Eligibility Criteria as set out in the Mortgage Sale Agreement. See *Summary of the Principal Documents – Mortgage Sale Agreement*. However, the Originators retain the right to revise their Lending Criteria from time to time, so the criteria applicable to New Loans may



not be the same as those currently used. Some of the factors currently used in making a lending decision are as follows:

(1) Type of property

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, there must be at least 30 years left on the lease at the end of the mortgage term and a minimum of 70 years remaining on inception of the mortgage. The property must be used solely as a single residential dwelling, although second homes and holiday homes are considered. Properties must be of good quality, in sound structural condition and in a reasonable state of repair or capable of being put into such condition. House boats, mobile homes, and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be named as borrowers under the mortgage.

All properties have either been valued by a valuer approved by the Originator or, where appropriate, according to a methodology which would meet the standards of a reasonably prudent mortgage lender.

(2) Term of loan

There is no minimum term on home purchase loans and the current maximum term is 40 years for all loans.

The Borrower may request to increase the term of the existing loan and the Originator may, at its discretion, agree to such request subject to the following:

- the consent of any subsequent lender or guarantor; and
- in the case of all leasehold properties, there being a minimum of 30 years remaining on the lease at expiry of the revised mortgage term (or 10 years in certain circumstances).

The term of a loan may be extended up to a maximum of 40 years from the date of variation, subject to the Borrower's age (see "Age of applicant" below).

(3) Age of applicant

All borrowers must be aged 18 or over and the maximum age limit at the end of the mortgage term is 80. If the mortgage term extends into the borrowers' retirement, or the borrower is already retired, the Originator will consider the borrower's ability to support the loan in retirement. If the Originator determines the borrower will not be able to afford the mortgage into retirement, the application will be declined. The exception to the maximum age limit is existing borrowers approaching the end of the mortgage term who may transfer onto a product under the "Retirement Interest Only" scheme, subject to satisfying certain qualifying criteria. The scheme supports older interest only borrowers who may need or want to continue their mortgage on an interest only basis.

(4) Loan-to-value (or **LTV**) ratio

Currently, the normal maximum original LTV ratio of loans is 95%. However, the Originator does offer loans to support first time buyers getting onto the property ladder, up to a maximum LTV ratio of 100%. Additionally, the Originators have also offered specific products in the past which permitted borrowing of up to 100%, as well as some negative equity products written in the 1990s, which had a maximum LTV of 125%. Where fees have been added to the loan, they may have taken the total lending over the specified LTV limit.

When a loan is made on a property which requires repairs, the property is either valued on a "when done" basis and the loan or part of the loan retained until works have been completed, or if the property is acceptable security in its existing condition, it may be valued on that basis and the loan released prior to works commencing.

(5) Status of applicant(s)

The maximum aggregate loan amount under a mortgage account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. The Originators maintain rules on the amount of variable income (overtime, bonus, commission) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items. The sustainability of income is established; and non-

sustainable income is excluded from the affordability model. The Originators maintain a policy rule that it will not lend more than an amount equal to 5 times gross annual allowable income, subject to loan size, LTV and income levels. Any decision to override this policy and lend more than an amount equal to 5 times income will be made by an underwriter after fully assessing the risk to the Originator.

In cases where a single Borrower is attempting to have the Originator take a secondary income into account, the Originator will consider the sustainability of the Borrower's work hours, the similarity of the jobs and/or skills, the commuting time and distance between the jobs, the length of employment at both positions and whether the salary is consistent with the type of employment. The Originator will determine, after assessing the above factors, if it is appropriate to use both incomes. If so, both incomes will be used as part of the normal income calculation.

When there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income. The Originator may at its discretion consider the income of additional applicants subject to manual underwriting review.

Positive proof of the Borrower's identity and address must be established. In exceptional circumstances this requirement can be waived (provided money laundering regulations are complied with), but the reasons for doing so must be fully documented.

The Originator may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of the Mortgage Loan(s). Accordingly, these parameters may vary for some loans. The Originator may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income), credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the loan.

(6) Credit history

(a) Credit search

A credit search is carried out in respect of all applicants (including Further Advances to existing borrowers). Applications may be declined where an adverse credit history (for example, county court judgment, Scottish court decree for payment, individual voluntary arrangement, bankruptcy notice or previous mortgage arrears) is revealed.

(b) Bank statements

The applicant may be required to provide bank statements in support of his or her application.

(7) Scorecard

Under the current policy, the Originator uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to a credit reference agency data (some of which is publicly available data) and customer-provided data to assess the likelihood of an account going into arrears.

The Originators reserve the right to decline an application that has received a passing score. The Originators have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the policy of the Originators to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

(8) Income verification

Prior to April 2014, dependent on the scorecard outcome and any policy rules applicable at the time of application, the Originators could elect not to verify the borrower's income. Typically, the Originators would not request income verification for loans that they believed represented a lower credit risk. The borrower, at the time of application, could not be certain whether or not income verification would be required and the Originators reserved the right to request income verification at all times, regardless of the scorecard outcome and policy rules.

Since April 2014, income verification has been required for all borrowers.

(9) Adverse credit

The Originators' lending criteria prevents lending to borrowers with an un-discharged bankruptcy or an individual voluntary arrangement (IVA) or a debt management plan that has not completed. Where a discharge from bankruptcy, IVA or debt management plan occurs within the last 6 years, lending will only be considered by underwriters to existing borrowers and only then if the Originator's position in terms of LTV and loan amount is improved.

*Changes to the underwriting policies and the Lending Criteria*

Each Originator's underwriting policy and Lending Criteria are subject to change within that Originator's sole discretion. New Loans and Further Advances that are originated under Lending Criteria that are different from the criteria set out here may be sold to the LLP.

The Portfolio includes Loans originated from 1997 to the date of this Prospectus. During this period the Originators' underwriting policy and Lending Criteria have changed from time to time in response to market conditions, competitor activity, improvements in the Originators' risk management capabilities and regulation.

The Originators are continuing to develop their automated credit scoring technology to better identify those applications requiring underwriter approval, and to enhance the autonomy of underwriters when deciding whether to approve loans.

The Originators may from time to time and in certain circumstances agree to lend outside of their normal lending practices, with any such variations from the Lending Criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender.

**Insurance policies**

*Insurance on the property*

A borrower is required to insure the Property with an Insurance Policy. The insurance may be purchased through the Seller or, alternatively, the borrower or landlord (in the case of a leasehold property) may arrange the insurance independently. In either case, the borrower must take reasonable steps to ensure that nothing happens which may harm the ability to make a claim under the insurance and must ensure that the insurance premiums are paid on time.

On newly originated Loans, the solicitors and licensed conveyancers should follow the requirements of the UK Finance Lenders' Handbook, make reasonable enquires to satisfy themselves that buildings insurance has been arranged for the property and remind the borrower that adequate insurance cover must be in place.

If the borrower does not insure the Property, or insures the Property but not in accordance with the Mortgage Conditions, the Seller may, upon becoming aware of the same, insure the Property itself, in which case the Seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The borrower will be responsible for the payment of insurance premiums and the cost may be added to the borrower's Loan and interest charged. The Seller retains the right to settle all insurance claims on reasonable terms without the borrower's consent. The Seller's current policy is that in most cases where it becomes aware that a Property is not insured, it will not arrange insurance cover except where the Property is in possession.

**Arrears policy**

The Originator identifies a loan as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date and has not been paid. If a borrower has not made a contractual payment on the due date that borrower will receive an initial arrears letter from the Originator.

The Originator will attempt to contact the relevant borrower by telephone and/or letter if such payments remain unpaid with a view to establishing the borrower's circumstances and agreeing an arrangement to return the account to order, where possible. Arrears counselling may also be offered. Where a satisfactory arrangement cannot be reached or maintained, possession proceedings may be instigated to enable the Originator to enforce its security.

**Governing law**

Each of the English Loans is governed by English law and each of the Scottish Loans is governed by Scots law.

## DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended from time to time (the **RCB Regulations**) and the corresponding implementation provisions, set out in the RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 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 52(4) of EU Directive (2009/65/EC) on undertakings for collective investment in transferable securities (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.

### *Supervision and registration*

The FSA, and following 1 April 2013 the FCA performs 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, and following 1 April 2013 the FCA has certain powers under the RCB Regulations. In particular, in certain circumstances it 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, and following 1 April 2013 the FCA 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, and following 1 April 2013 the FCA 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 covered bond.

On 6 December 2012, the Issuer designated its Programme to be a single asset programme and from 1 January 2013 it was listed as a single asset programme listed as class two (thereby consisting of restricted mortgage loans and various liquid assets).

### *Requirements under the legislative framework*

The RCB Regulations and the RCB Sourcebook include various requirements related to registered 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, and following 1 April 2013 the FCA 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, and following 1 April 2013 the FCA 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 relevant authorities undertook a review of the UK legislative framework in 2011 and certain changes were made to the regime with the intention of enhancing the attractiveness of UK regulated covered bonds to investors. These changes took effect from 1 January 2013 and include the following:

- *Single asset pool designation* – issuers are required to designate their programme as being a single asset pool (consisting of either class one assets – public sector debt, class two – residential mortgage loans or class three assets – commercial loans and, in each case, certain liquid assets) or a mixed asset pool (consisting of all eligible property for the purposes of the RCB Regulations). The Issuer has provided the necessary certifications for the Programme to be registered as a single asset pool programme, falling in class two. As a result, the Asset Pool will consist solely of residential mortgage loans and certain liquid assets, being UK Government securities and cash deposits. To be clear, and in

keeping with the new requirements under the RCB Regulations, the Asset Pool will not include any asset-backed securities.

- *Fixed minimum over-collateralisation requirement for principal and fixed minimum coverage requirement for interest* – under the new requirements, the total principal amount outstanding on the loans constituting eligible property in the asset pool is required to be more than the total principal amounts outstanding in relation to the regulated covered bonds by at least 8 per cent. and a minimum threshold applies in respect of interest amounts such that the total amount of interest payable in the period of twelve (12) months following any given date in respect of the eligible property in the asset pool is required to be not less than the interest which would be payable in relation to the regulated covered bonds in that period. For the purposes of calculating the overcollateralisation test, the issuer can take into account certain liquid assets up to a maximum of 8 per cent. of those covered bonds that have a maturity date of more than one year and 100 per cent. of those covered bonds that have a maturity date of one year or less.
- *Investor reporting, including loan-level data* – new investor reporting requirements apply. In particular, issuers are required to make available detailed loan-level information relating to the Asset Pool following an issuance of regulated covered bonds after 1 January 2013. Issuers are also required to publish certain transaction documents relating to the programme. The information to be published by the Issuer can be found at <http://www.lloydsbankinggroup.com/investors/fixed-income-investors/covered-bonds>. The website and the contents thereof do not form part of this Prospectus;
- *Asset pool monitor role* – new requirements have been introduced to formalise the role of the asset monitor. Under the new provisions, an asset pool monitor is required, on an annual basis, to inspect and assess the issuer's compliance with certain principles based requirements under the regime and to report on their findings (with additional reporting requirements in the case of issuer non-compliance). The Issuer has appointed an asset pool monitor for the purposes of the RCB Regulations.

Under the RCB Regulations, an issuer may be removed from the register of issuers in certain limited circumstances but the FSA, and following 1 April 2013 the FCA 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 covered 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 generally 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 Agreements 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 S&P'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 Participant's 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 Participants 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 Participants 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 accountholders. 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 accountholder of either system.

#### *Clearing and settlement in Australia*

Upon the issuance of an A\$ Registered Covered Bond, the Issuer will (unless otherwise agreed with the Covered Bondholder including by specification of such in the relevant Final Terms) procure that the A\$ Registered Covered Bond is entered into the Austraclear System. Upon entry, Austraclear will become the sole registered holder (**Registered Holder**) of the A\$ Registered Covered Bond.

Members of the Austraclear System (**Accountholders**) may acquire rights against the Registered Holder in relation to an A\$ Registered Covered Bond entered in the Austraclear System. If potential investors are not Accountholders, they may hold their interest in the relevant A\$ Registered Covered Bond through a nominee who is an Accountholder. All payments in respect of A\$ Registered Covered Bonds entered in the Austraclear



System will be made directly to an account of the Registered Holder or as it directs in accordance with the Austraclear Regulations.

#### *Secondary market transfers*

Secondary market transfers of A\$ Registered Covered Bonds held in the Austraclear System will be conducted in accordance with the Austraclear Regulations and the Australian Deed Poll.

#### *Relationship of Accountholders with the Registered Holder*

Each of the persons shown in the records of the Austraclear System as having an interest in an A\$ Registered Covered Bond issued by the Issuer must look solely to Austraclear for such person's share of each payment made to the Registered Holder in respect of that A\$ Registered Covered Bond and to any other rights arising under that A\$ Registered Covered Bond, subject to and in accordance with the Austraclear Regulations. Unless and until such A\$ Registered Covered Bonds are uplifted from the Austraclear System and registered in the name of an Accountholder, such person has no claim directly against the Issuer or the LLP in respect of payments by the Issuer or the LLP and such obligations of the Issuer or the LLP will be discharged by payment to the Registered Holder (or as it directs) in respect of each amount so paid. Where a Registered Holder is registered as the holder of A\$ Registered Covered Bonds that are lodged in the Austraclear System, the Registered Holder may, in its absolute discretion, instruct the A\$ Registrar to transfer or "uplift" the A\$ Registered Covered Bonds to the person in whose "Security Record" (as defined in the Austraclear Regulations) those A\$ Registered Covered Bonds are recorded without any consent or action of such transferee and, as a consequence, remove those A\$ Registered Covered Bonds from the Austraclear 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 U.S. 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 following is a summary of the Issuer's understanding of current UK law and published HM Revenue and Customs' practice relating only to the UK withholding tax treatment of payments of interest (as that term is understood for UK tax purposes) by the Issuer in respect of Covered Bonds and payments by the LLP in respect of Covered Bonds. It does not deal with any other UK taxation implications of acquiring, holding or disposing of Covered Bonds. The UK tax treatment of prospective holders of Covered Bonds depends on their individual circumstances and may be subject to change in the future. Prospective holders of Covered Bonds who may be subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice.

#### *Payment of interest by the Issuer in respect of the Covered Bonds*

The Issuer will be entitled to make payments of interest on the Covered Bonds without deduction of or withholding on account of UK income tax provided that:

- (a) the Issuer is and continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (**ITA 2007**); and
- (b) the interest on the Covered Bonds is and continues to be paid in the ordinary course of the Issuer's business within the meaning of section 878 ITA 2007.

Payments of interest on the Covered Bonds may also be made without deduction of or withholding on account of UK income tax if 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 London Stock Exchange is a recognised stock exchange for this purpose. 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 Financial Services and Markets Act 2000) and admitted to trading on the regulated market of the London Stock Exchange. Provided, therefore, that the Covered Bonds are and remain so listed, interest on the Covered Bonds will be payable without withholding or deduction for or on account of UK income tax whether or not the Issuer is a bank within the meaning of section 991 of Income Tax Act 2007 and whether or not the interest is paid in the ordinary course of its business.

Interest on the Covered Bonds may also be paid without withholding or deduction for or on account of UK income tax where the maturity of the Covered Bonds is less than 365 days and those Covered Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Covered Bonds that has a UK source on account of UK income tax at the basic rate (currently 20%), subject to any available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a holder of Covered Bonds, HMRC can issue a notice to the Issuer to pay interest to the Covered Bondholder without withholding or deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

#### *Payments by the LLP*

The UK withholding tax treatment of payments by the LLP under the terms of the Covered Bond Guarantee in respect of interest is uncertain. In particular, such payments by the LLP may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if the LLP makes any such payments, these may be subject to UK withholding tax at the basic rate. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

### U.S. Federal Income Taxation

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 U.S. 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 the U.S. Internal Revenue Code of 1986, as amended (the **Code**), U.S. Treasury Regulations, administrative and judicial interpretations thereof in effect and available as of the date of this Prospectus, 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. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, Medicare contribution tax on net investment income considerations or local tax considerations.

This discussion applies only to holders of Registered Covered Bonds issued pursuant to this Prospectus. Bearer Covered Bonds are not being offered to U.S. holders. A U.S. holder who owns a Bearer Covered Bond may be subject to limitations under U.S. federal income tax laws, including the limitations provided in Sections 165(j) and 1287 of the Code.

If a partnership (or any other entity or arrangement 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 advisers as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Covered Bonds.

Under the Tax Cuts and Jobs Act of 2017 (the **Tax Cuts and Jobs Act**), a Covered Bondholder that uses an accrual method of accounting for U.S. federal income tax purposes generally would be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. For Covered Bonds issued with original issue discount, the effective date is for tax years beginning after December 31, 2018. The application of this rule thus may require the accrual of income earlier than would be the case otherwise, although the precise application of this rule is unclear at this time. In addition, the Tax Cuts and Jobs Act imposes new limits on a taxpayer's ability to deduct business interest in excess of such taxpayer's business interest income. The following discussion does not address whether a taxpayer can treat income from the Covered Bonds as business interest income under the new legislation. Prospective investors in the Covered Bonds that use an accrual method of accounting for tax purposes, that are required to accrue original issue discount (as discussed below), or that may be subject to new limitations on the deductibility of business interest are urged to consult with their tax advisors regarding the potential applicability of the Tax Cuts and Jobs Act to their particular situation.

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 advisers 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, non-U.S. 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 realised 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 recognise 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 amortised 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 recognise gain or loss equal to the difference between the amount realised 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 realised 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 realised 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 recognised 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 recognised by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognised 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 per cent. (0.25 per cent.) 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 bond houses, brokers or similar persons acting in the capacity of underwriters, placement agents or wholesalers). 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 Code 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 amortise 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 recognise 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 recognise 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 that govern the tax treatment of debt obligations that provide for contingent payments.

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 advisers 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 amortise 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 amortise such premium must reduce its tax basis in a Covered Bond by the amount of the premium amortised during its holding period. Original Issue Discount Covered Bonds purchased at such 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 amortisation of such premium in the Specified Currency. Amortisation 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 realised with respect to amortised 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 amortise 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 amortise 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 per cent. 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 realised 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 realised 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. Accrual basis U.S. holders and certain other U.S. holders will be treated as accruing OID 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 realised 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 OID 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 OID on a Short-Term Covered Bond in income on a current basis.

Finally, the market discount rules will not apply to a Short-Term Covered Bond.

#### *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 are not subject to information reporting or backup withholding. U.S. holders should consult their tax advisers as to their qualification for exemption from information reporting and/or backup withholding.

#### *IRS Disclosure Reporting Requirements*

Certain U.S. Treasury Regulations relating to Section 6011 of the Code (the **Disclosure Regulations**) meant to require the reporting of certain tax shelter transactions (**Reportable Transactions**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the Disclosure Regulations it may be possible that certain transactions with respect to the Covered Bonds may be characterised as Reportable Transactions requiring a Covered Bondholder who is required to disclose such transaction, such as a sale, exchange, retirement or other taxable disposition of a Foreign Currency Covered Bond that results in a loss that exceeds



certain thresholds and other specified conditions are met. Prospective investors in the Covered Bonds should consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Covered Bonds, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).

#### *Foreign Financial Asset Reporting*

Certain U.S. holders that own "specified foreign financial assets" that meet certain U.S. dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The Covered Bonds generally will constitute specified foreign financial assets subject to these reporting requirements unless the Covered Bonds are held in an account at certain financial institutions. U.S. holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Covered Bonds.

#### *Taxation of Non-U.S. Holders*

Holders of the Covered Bonds that are not U.S. holders (**Non-U.S. holders**) generally should not be subject to U.S. federal income or withholding tax on any payments on the Covered Bonds and gain from the sale, redemption or other disposition of the Covered Bonds unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. holder of a trade or business in the U.S.; (ii) in the case of any gain realized on the sale or exchange of a Covered Bond by an individual Non-U.S. holder, that holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates.

Non-U.S. holders should consult their own tax advisers regarding the U.S. federal income and other tax consequences of owning Covered Bonds.

### **Australia**

The following taxation summary is of a general nature only and addresses only some of the key Australian tax implications that may arise for a prospective holder of a A\$ Registered Covered Bond or an interest in a A\$ Registered Covered Bond (in the following taxation summary, an Investor) as a result of acquiring, holding or transferring the A\$ Registered Covered Bond. The following is not intended to be, and should not be taken as, a comprehensive taxation summary for an Investor. Each reference in the following taxation summary to a "A\$ Registered Covered Bond" includes a reference to an "interest in a A\$ Registered Covered Bond" as the context requires.

The taxation summary is based on the Australian taxation laws in force and the administrative practices of the Australian Taxation Office (the ATO) generally accepted as of the date of this Prospectus. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retroactive effect.

Investors should consult their professional advisers in relation to their tax position. Investors who may be liable to taxation in jurisdictions other than Australia in respect of their acquisition, holding or disposal of A\$ Registered Covered Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain Australian taxation aspects of the A\$ Registered Covered Bonds. In particular, Investors should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the A\$ Registered Covered Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of Australia.

### **Taxation of interest on Covered Bonds**

#### *Australian Investors*

Investors who are Australian tax residents, or who are non-residents of Australia that hold the A\$ Registered Covered Bonds in carrying on business at or through a permanent establishment in Australia, will be taxable by assessment in respect of any interest income derived in respect of the A\$ Registered Covered Bonds. Such Investors will generally be required to lodge an Australian tax return. The timing of assessment of the interest (e.g. a cash receipts or accruals basis) will depend upon the tax status of the particular Investors, the Terms and Conditions applicable to the A\$ Registered Covered Bonds, and the potential application of the "Taxation of Financial Arrangements" provisions of the Income Tax Assessment Act 1997 (Cth).

Tax at the highest marginal income tax rate plus the Medicare levy (in aggregate, currently 47%) may be deducted from payments to an Investor if the Investor does not provide an Australian tax file number (TFN) or an Australian Business Number (ABN) (where applicable), or proof of a relevant exemption from quoting such numbers.

#### *Non-Australian Investors*

So long as the Issuer continues to be a non-resident of Australia, where the A\$ Registered Covered Bonds issued by it are not attributable to an Australian permanent establishment of the Issuer, payments of principal and interest made in respect of the A\$ Registered Covered Bonds should not be subject to Australian interest withholding tax.

### **Taxation of gains on disposal or redemption**

#### *Australian Investors*

Investors who are Australian tax residents, or who are non-residents that hold the A\$ Registered Covered Bonds in carrying on business at or through a permanent establishment in Australia, will be required to include any gain or loss on disposal of the A\$ Registered Covered Bonds in their assessable income.

The determination of the amount and timing of any gain or loss on disposition or redemption of the A\$ Registered Covered Bonds may be affected by the “Taxation of Financial Arrangements” provisions, which provide for a specialised regime for the taxation of financial instruments, and, where the A\$ Registered Covered Bonds are denominated in a currency other than Australian Dollars, the foreign currency rules. Prospective Investors should obtain their own independent tax advice in relation to the determination of any gain or loss on disposal or redemption of the A\$ Registered Covered Bonds.

#### *Non-Australian Investors*

An Investor who is a non-resident of Australia and who has never held the A\$ Registered Covered Bonds in carrying on a business at or through a permanent establishment within Australia will not be subject to Australian income tax or capital gains tax on gains realised on the sale or redemption of such A\$ Registered Covered Bonds provided such gains do not have an Australian source. A gain arising on the sale of a A\$ Registered Covered Bond by a non-Australian resident holder to another non-Australian resident where the A\$ Registered Covered Bond is sold outside Australia and all negotiations are conducted and all documentation is executed outside Australia should generally not be regarded as having an Australian source.

Special rules can apply to treat a portion of the purchase price of the A\$ Registered Covered Bonds as interest for Australian withholding tax purposes where deferred-return A\$ Registered Covered Bonds (for example, A\$ Registered Covered Bonds which pay a return that is deferred by more than 12 months) are sold to an Australian Investor.

### **Collection powers**

The ATO and other revenue authorities in Australia have wide powers for the collection of unpaid tax debts. This can include issuing a notice to an Australian resident requiring a deduction from any payment to an Investor in respect of any unpaid tax liabilities of that Investor.

### **Stamp duty**

No ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue, transfer or redemption of the A\$ Registered Covered Bonds.

### **Death duties**

The A\$ Registered Covered Bonds will not be subject to death, estate or succession duties imposed by Australia or by any political subdivision or authority therein having power to tax if held at the time of death.

### **Goods and Services Tax**

Neither the issue nor receipt of the A\$ Registered Covered Bonds will give rise to a liability for Goods and Services Tax (GST) in Australia. Furthermore, neither the payment of principal or interest on the A\$ Registered Covered Bonds would give rise to a GST liability.

## **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the Code, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years from the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional Covered Bonds (as described under “Terms and Conditions of the Covered Bonds—Further Issues”) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds.

## ERISA CONSIDERATIONS

Unless otherwise provided in the applicable Final Terms, 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 plans (as defined in Section 3(32) of ERISA), church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) that are subject to state, local, other federal law of the U.S. 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 advisers 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.

Save as otherwise provided in the applicable Final Terms, 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 (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Covered Bond (or any interest therein), either that (a) it is not a Plan or an entity whose underlying assets are deemed for the purposes of ERISA or the Code to include the assets of any Plan or a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its acquisition, holding and disposition of such Covered Bond will not constitute or 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, local or non-U.S. law) 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 debt form 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, church or non-U.S. plan) should consult with its counsel to confirm that such investment will not constitute or 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, church or non-U.S. plan, any substantially similar federal state, local or non-U.S. 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.

## 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 relevant Dealer may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by the relevant 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 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 U.S. 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 and each beneficial owner of such Covered Bond has been advised that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the U.S. and is not a U.S. person and it is not purchasing (or holding) the Covered Bonds for the account or benefit of a U.S. person;
- (b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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) that, except as otherwise provided in the applicable Final Terms, either (a) it is not a Plan or an entity whose underlying assets are deemed for purposes of ERISA or the Code to include the assets of any Plan or a governmental, church or non-U.S. plan which is subject to any federal, state, local law or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (b) its acquisition, holding and disposition of the Covered Bond will not constitute or 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 such substantially similar federal, state, local or non-U.S. law) for which an exemption is not available;
- (f) 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;
- (g) that Covered Bonds initially offered in the U.S. to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the U.S. in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (h) 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 AND WILL NOT BE 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.";

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, BY ITS ACQUISITION AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), EACH PURCHASER AND HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT EITHER (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**) AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN, OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL LAW OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**), OR (2) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS COVERED BOND DOES NOT AND WILL NOT CONSTITUTE OR 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 SUCH SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

- (i) if it is outside the U.S. 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 U.S. 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

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, BY ITS ACQUISITION AND HOLDING OF THIS COVERED BOND (OR ANY INTEREST THEREIN), EACH PURCHASER AND HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED, THAT EITHER (1) IT IS NOT AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS



AMENDED (**ERISA**) AND SUBJECT TO TITLE I OF ERISA, OR A "PLAN" SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN, OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL LAW OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**), OR (2) ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS COVERED BOND DOES NOT AND WILL NOT CONSTITUTE OR 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 SUCH SIMILAR LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE; and

- (j) 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 U.S. to any one purchaser will be for less than U.S.\$200,000 (and no less than the equivalent of €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.\$200,000 (and no less than the equivalent of €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.\$200,000 (and no less than the equivalent of €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).

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Covered Bonds outside the U.S. and for the resale of the Covered Bonds in the U.S.. The Issuer and the lead managers reserve the right to reject any offer to purchase the Covered Bonds, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the U.S. or to any U.S. person, other than a QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the lead managers or its U.S. broker-dealer affiliate. Distribution of this prospectus by any non-U.S. person outside the U.S. or by any QIB in the U.S. to any U.S. person or to any other person within the U.S., other than a QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the U.S., other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

## **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 U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act and any applicable local, state or federal securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the U.S. or its possessions or to a U.S. person, 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 regulations thereunder.

In connection with any Covered Bond which are offered or sold outside the U.S. in reliance on Regulation S (**Regulation S Covered Bonds**), each 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 such Regulation S Covered Bonds (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Tranche of Covered Bonds of which such Covered Bonds are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Each 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 the Regulation S Covered Bond within the U.S. 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 such Covered Bonds within the U.S. by any dealer (whether or 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.

Dealers 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 Dealers 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.\$200,000 (and no less than the equivalent of €100,000) (or the approximate equivalent in another Specified Currency).

To permit compliance with Rule 144A in connection with any resales or other transfers of Covered Bonds that are "restricted securities" within the meaning of the Securities Act, each of the Issuer and the LLP 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, any of the Covered Bonds remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the LLP is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### ***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**), each 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 the 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) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) 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 (a) to (c) 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 an **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 for 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 (as amended or superseded) (including, by the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing

measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) 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 2000) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA 2000 does not apply to the Issuer or the LLP; and
- (c) it has complied and will comply with all applicable provisions of the FSMA 2000 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 (Act No. 25 of 1948, as amended, (the **FIEA**)) and the each Dealer has represented and agreed that it will not offer or sell any Covered Bonds directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act 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, a 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 will only be offered in The Netherlands to qualified investors (as defined in the Prospectus Directive), unless such offer is made in accordance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### ***Republic of Italy***

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, no Covered Bonds may 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 pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of the Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) be 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. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and

- (ii) comply with any other applicable laws and regulations or requirement imposed by Commissione Nazionale per le Società e la Borsa (**CONSOB**), the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) and/or any other Italian authority; or
- (iii) in compliance with any other applicable laws and regulations or requirement 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**

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 offered and will only make an offer of Covered Bonds to the public in France in the period beginning on the date of publication of the Final Terms relating to these Covered Bonds and ending at the latest on the date which is 12 months after the date of the visa of the *Autorité des marchés financiers* (**AMF**) 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, D.411-1 and D.411-3 of the French *Code monétaire et financier*.

### **Switzerland**

This document is not intended to constitute an offer or solicitation to purchase or invest in the Covered Bonds described herein. The Covered Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this document nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, nor the Issuer nor the Covered Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Covered Bonds are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Covered Bonds will not benefit from protection or supervision by such authority.

### **Prohibition of Sales to EEA Retail Investors**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this

Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression "offer" includes 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.

### ***Australia***

No prospectus or other disclosure document (as defined in the Corporations Act) in relation to the Programme or any Covered Bonds has been or will be lodged with ASIC. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that in connection with the distribution of each Tranche of Covered Bonds, it:

- (a) has not made or invited and it will not make (directly or indirectly) any offer or invitation in Australia or any offer or invitation which is received in Australia in relation to the issue, sale or purchase of any Covered Bonds; and
- (b) has not distributed or published and will not distribute or publish any information memorandum, advertisement, disclosure document or other offering material relating to any Covered Bonds in Australia,

unless (i) the aggregate consideration payable by each offeree or invitee is at least A\$500,000 for the Covered Bonds or its foreign currency equivalent (in either case disregarding moneys, if any, lent by the Issuer or other person offering the Covered Bonds or its associates (within the meaning of those expressions in Part 6D.2 of the Corporations Act)), or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act; (ii) the offer or invitation is not made to a person who is a "retail client" (as defined in section 761G of the Corporations Act), (iii) such action complies with all applicable laws, regulations and directives in Australia and (iv) such action does not require any document to be lodged or registered with ASIC.

In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will comply with Banking exemption No. 1 of 2018 dated 21 March 2018 promulgated by the Australian Prudential Regulation Authority and which requires all offers and transfers to be in parcels of not less than A\$500,000 in aggregate principal amount. Banking exemption No. 1 does not apply to transfers which occur outside Australia.

### ***Singapore***

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, represent and agree, that it has not offered or sold any Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds or cause the Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Covered Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Covered Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Covered Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

### ***General***

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Prospectus and 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 and 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 nor any of the other Dealers shall have any responsibility therefor. Furthermore, they will not directly or indirectly offer, sell or deliver any Covered Bonds or distribute or publish any form of application, prospectus, advertisement or other offering material except under circumstances that will, to the best of their knowledge and belief, result in compliance with any applicable laws and regulations, and all offers, sales and deliveries of Covered Bonds by them will be made on the same terms.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any of the Dealers represents that 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 such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional or modified restrictions (if any) as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom they offer or sell Covered Bonds a copy of the Prospectus as then amended or supplemented or, unless delivery of the Prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The Dealers are not authorised to give any information or to make any representation not contained in the Prospectus in connection with the offer and sale of Covered Bonds to which the Prospectus relates.

This Prospectus may be used by the Dealers for offers and sales related to market-making transactions in the Covered Bonds. Any or each of the Dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the Dealers has any obligation to make a market in the Covered Bonds, and any market-making may be discontinued at any time without notice. The Dealers are participating in the initial distribution of the Covered Bonds.

## GENERAL INFORMATION

### Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the UK 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 of the Issuer dated 28 November 2018.

### 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 8 May 2019. 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 and public holidays excepted) for inspection at the office of Lloyds 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 most recent publicly available reviewed or audited consolidated financial statements for the Issuer beginning with such financial statements for the years ended 31 December 2018 and 31 December 2017;
- (v) the report of PricewaterhouseCoopers LLP in respect of the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2018 and 31 December 2017;
- (vi) the LLP's 2016 Annual Report;
- (vii) the LLP's 2017 Annual Report;
- (viii) each set of 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
- (ix) a copy of this Prospectus together with any Supplemental Prospectus or further Prospectus and any documents incorporated by reference.

For so long as A\$ Registered Covered Bonds are capable of being issued under the Programme, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted) for inspection at the office of the Australian Paying Agent at Level 2, 1 Bligh Street, Sydney NSW 2000, Australia:

- (i) an original copy of the Australian Deed Poll;

- (x) the Trust Deed;
- (xi) the Agency Agreement; and
- (xii) the Australian Agency Agreement.

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/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).

### **Clearing Systems**

The Covered Bonds issued pursuant to this Prospectus 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, such as Rule 144A 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.

If A\$ Registered Covered Bonds are lodged into the Austraclear System, Austraclear will become the registered holder of those A\$ Registered Covered Bonds in the A\$ Register. While those A\$ Registered Covered Bonds remain in the Austraclear System:

- (i) all payments required of the Issuer, the LLP and the Trust Manager in relation to those A\$ Registered Covered Bonds will be directed to Austraclear;
- (ii) all notices regarding the A\$ Registered Covered Bonds may be given to Austraclear for communication by it to the holders of beneficial interests in the A\$ Registered Covered Bonds; and
- (iii) all dealings and payments in relation to those A\$ Registered Covered Bonds within the Austraclear System will be governed by the Austraclear Regulations.

The applicable Final Terms will also indicate whether the relevant Covered Bonds will not be cleared through any clearing system.

### **Significant or Material Change**

There has been no significant change in the financial position of the Lloyds Bank Group since 31 December 2018, the date to which the Lloyds Bank Group's last published audited financial information (as set out in the Issuer's 2018 Annual Report) was prepared. There has been no material adverse change in the prospects of the Issuer since 31 December 2018, the date to which the Issuer's last published audited financial information (as set out in the Issuer's 2018 Annual Report) was prepared. There has been no significant change in the financial or trading position of the LLP since 31 December 2018, the date to which the LLP's last published audited financial information was prepared and there has been no material adverse change in the prospects of the LLP since 31 December 2018.

### **Litigation Statement**

Save for as disclosed in (i) the section entitled "*Review of Performance*" on page 1 of the Bank's Q1 Interim Management Statement for the three months ended 31 March 2019 in respect of the additional charge of £99 million taken for Payment Protection Insurance during the three months ended 31 March 2019 and (ii) the sub-sections entitled "*Interchange fees*", "*Payment Protection Insurance*", "*Libor and other trading rates*", "*Packaged bank accounts*", "*Arrears handling related activities*", "*Provisions for other legal actions and regulatory matters*", "*UK shareholder litigation*", "*Tax authorities*", "*Residential mortgage reposessions*", "*Mortgage arrears handling activities*", "*HBOS Reading – Customer Review*", "*HBOS Reading – FCA Investigation*" and "*Contingent liabilities in respect of other legal actions and regulatory matters*" of the section "*Lloyds Bank Group – Legal Actions and Regulatory Matters*" on pages 169 to 172 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 the Issuer or the Lloyds Bank Group. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the LLP is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past a significant effect on the financial position or profitability of the LLP.

### **Independent Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants and Statutory 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 for the two financial years ended 31 December 2017 and 31 December 2018.

### **Legal Entity Identifier**

The Legal Entity Identifier (**LEI**) of the Bank is H7FNTJ4851HG0EXQ1Z70.

### **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 <http://www.lloydsbankinggroup.com/investors/fixed-income-investors/covered-bonds> detailing, among other things, compliance with the Asset Coverage Test. The website and the contents thereof do not form part of this Prospectus.

In addition, the Issuer is required, pursuant to the terms of the RCB Regulations, to provide loan level information relating to the Loans in the Asset Pool and to display the Transaction Documents related to the Programme.

## GLOSSARY

<b>2010 PD Amending Directive</b>	Directive 2010/73/EU
<b>30/360, 360/360 or Bond Basis</b>	The meaning given in Condition 4.5(iii)(c)(vi) on page 132 of Programme Conditions
<b>30E/360 or Eurobond Basis</b>	The meaning given in Condition 4.5 (iii)(c)(vii) on page 132 of the Programme Conditions
<b>30E/360 (ISDA)</b>	The meaning given in Condition 4.5(iii)(c)(viii) on page 132 of the Programme Conditions
<b>1999 Regulations</b>	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended
<b>A\$, Australian Dollar</b>	The lawful currency for the time being of Australia
<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, JPY, Japanese ¥ or Japanese yen</b>	The lawful currency for the time being of Japan
<b>A\$ Conditions</b>	In relation to the A\$ Registered Covered Bonds of any Series, the terms and conditions applicable to the A\$ Registered Covered Bonds of that Series substantially in the form set out in Schedule 1 of the Trust Deed, as supplemented, amended, modified or replaced by the Final Terms applicable to the A\$ Registered Covered Bonds of that Series
<b>A\$ Covered Bondholder</b>	Each holder of A\$ Registered Covered Bonds specified in the A\$ Register as the holder of that A\$ Registered Covered Bond from time to time
<b>A\$ Record Date</b>	The meaning given to it in Condition 2(c)
<b>A\$ Register</b>	The register of holders of the A\$ Registered Covered Bonds maintained by the Australian Registrar.
<b>A\$ Registered Covered Bond</b>	Covered bonds denominated in A\$ issued in registered form by entry in the A\$ Register maintained by the Australian Registrar.
<b>Account Bank</b>	Lloyds 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 Period</b>	The meaning given on page 131 of this Prospectus
<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>Actual/360</b>	The meaning given in Condition 4.5(iii)(c)(v) on page 132 of this Prospectus
<b>Actual/365 (Fixed)</b>	The meaning given in Condition 4.5(iii)(c)(iii) on page 131 of this Prospectus
<b>Actual/365 (Sterling)</b>	The meaning given on page 131 of this Prospectus
<b>Actual/Actual (ICMA)</b>	The meaning given in Condition 11(iii)(c)(i) on page 131 of this Prospectus
<b>Actual/Actual or Actual/Actual (ISDA)</b>	The meaning given on page 131 of this Prospectus
<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 194 of this Prospectus
<b>Adjusted Current Balance</b>	The meaning given on page 194 of this Prospectus
<b>adjusted issue price</b>	The meaning given on page 245 of this Prospectus
<b>Adjusted Required Redemption Amount</b>	The meaning given on page 199 of this Prospectus
<b>Administration Fee</b>	The meaning given on page 191 of this Prospectus
<b>Admission</b>	The meaning given on page 29 of this Prospectus
<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) and, in relation to the A\$ Registered Covered Bonds, includes the Australian Agency Agreement
<b>Agents</b>	The Paying Agents, the Registrar, the Exchange Agent, the Transfer Agents, the Australian Registrar and any Calculation Agent
<b>AMF</b>	The meaning given on page 259 of this Prospectus
<b>Amortisation Test</b>	The meaning given on page 197 of this Prospectus
<b>Amortisation Test Aggregate Loan Amount</b>	The meaning given on page 197 of this Prospectus
<b>Amortisation Test Current Balance</b>	The meaning given on page 197 of this Prospectus
<b>Amortised Face Amount</b>	The meaning given on page 142 of this Prospectus
<b>applicable Final Terms</b>	The meaning given on page 116 of this Prospectus
<b>Arrears Adjusted Current Balance</b>	The meaning given on page 195 of this Prospectus
<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>in Arrears</b>	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>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 Bank plc, the LLP, the Cash Manager and the Rating Agencies may agree

<b>Asset Coverage Test</b>	The meaning given on page 194 of this Prospectus
<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 to 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>Asset Segregation</b>	The meaning given on page 14 of this Prospectus
<b>Austraclear</b>	Austraclear Ltd ABN 94 002 060 773
<b>Austraclear Regulations</b>	The regulations established by Austraclear to govern the use of the Austraclear System
<b>Austraclear System</b>	The clearance and settlement system operated by Austraclear
<b>Australian Agency Agreement</b>	has the meaning given to it in the Programme Conditions
<b>Australian Banking Act</b>	Banking Act 1959 (Cth) of Australia
<b>Australian Bond Trustee</b>	Means The Bank of New York Mellon, London Branch acting through its office at One Canada Square, London E14 5AL, in its capacity as Australian bond trustee under the Trust Deed together with any successor or additional Australian bond trustee appointed from time to time thereunder
<b>Australian Calculation Agent</b>	BTA Institutional Services Australia Limited (ABN 48 002 916 396) or any other person appointed by the Issuer and/ or the LLP to perform calculation duties from time to time
<b>Australian Deed Poll</b>	Means the deed poll dated 8 May 2019 made by the Issuer in favour of the Australian Bond Trustee and the A\$ Covered Bondholders in respect of A\$ Registered Covered Bonds, as modified and/or supplemented and/or restated from time to time
<b>Australian Paying Agent</b>	BTA Institutional Services Australia Limited (ABN 48 002 916 396) or

any other person appointed by the Issuer and/ or the LLP to perform payment duties from time to time

**Australian Registrar**

BTA Institutional Services Australia Limited (ABN 48 002 916 396) or any other person appointed by the Issuer and/ or the LLP to maintain the A\$ Register from time to time

**Authorised Investments**

Each of:

- (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
- (b) Sterling demand or time deposits, 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 authorised 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

**Authorities**

The meaning given on page 39 of this Prospectus

**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)
<b>Available Revenue Receipts</b>	(a)	On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):
	(b)	the amount of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger on the GIC Account;
	(c)	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;
	(d)	amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
	(e)	any other Revenue Receipts not referred to in paragraphs (b) to (d) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account;
	(f)	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
	(g)	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*

	(h)	Third Party Amounts, which shall be paid on receipt in cleared funds to the Seller (to the extent otherwise constituting Available Revenue Receipts);
	(i)	Tax Credits and any amount received by the LLP in respect of Tax Credits (to the extent otherwise constituting Available Revenue Receipts);
	(j)	Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Revenue Receipts); and
	(k)	Swap Provider Tax Payments received from the Swap Providers
<b>Average Mortgage Account Balance</b>		The simple average mortgage account balance, calculated as the total outstanding Current Balance of all Mortgage Accounts in the Portfolio

	at the Cut-off Date, divided by the number of Mortgage Accounts in the Portfolio at the same date
<b>Bank Account Agreement</b>	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)
<b>Banking Act</b>	Banking Act 2009
<b>Banking Reform Act</b>	The meaning given on page 37 of this Prospectus
<b>Basel Committee</b>	The meaning given on page 38 of this Prospectus
<b>Basel III</b>	The meaning given on pages 38 of this Prospectus
<b>BBSW</b>	Australian Bank Bill Swap Rate
<b>BBSW Rate</b>	The meaning given to it in Condition 4.2(c)
<b>BBSW Page</b>	The meaning given to it in Condition 4.2(c)
<b>BBSW Publication Time</b>	The meaning given to it in Condition 4.2(c)
<b>BCBS</b>	The meaning given on page 97 of this Prospectus
<b>Bearer Covered Bonds</b>	Covered Bonds in bearer form
<b>Bearer Definitive Covered Bond</b>	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 Programme Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Programme Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Programme 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 Definitive Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<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>Belmont decision</b>	The meaning given on page 96 of this Prospectus
<b>Benchmarks Regulation</b>	The meaning given on page 3 of this Prospectus
<b>Beneficial Owner</b>	Each actual purchaser of each DTC Covered Bond
<b>Bond Trustee</b>	BNY Mellon 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>BHC Act</b>	The meaning given on page 168 of this Prospectus
<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, a public limited company incorporated under the laws of Scotland (registered number SC 327000) whose registered office is at The Mound, Edinburgh EH1 1YZ, Scotland
<b>BOS Power of Attorney</b>	A power of attorney to be provided by BOS to Lloyds Bank plc, the LLP and the Security Trustee in respect of those Halifax Loans included in the Portfolio substantially in the form set out in schedule 4 (Power of Attorney in favour of the Purchaser, the LLP and the Security Trustee) to the Intercompany Mortgage Sale Agreement
<b>Broken Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>BRRD</b>	The meaning given on page 40 of this Prospectus
<b>Business Day</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 130 of this Prospectus
<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 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 130 of this Prospectus
<b>Buy-to-Let Loan</b>	A Loan that has been made to a Borrower who wishes to purchase or remortgage the relevant Property for the purpose of letting to third parties either by way of assured shorthold tenancy or by way of a tenancy which would be an assured shorthold tenancy but for the level of rent payable under the tenancy exceeding the maximum amount prescribed for such tenancies, or in respect of Scottish Mortgages, a short assured tenancy
<b>Buy-to-Let Product</b>	A range of specific mortgage products available to customers with Buy-to-Let loans and to customers with Buy-to-Let Loans and to those customers where the Seller has consented to the borrower letting the property
<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>	<p>(a) In relation to one or more Series of Floating Rate 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</p> <p>(b) In relation to A\$ Registered Covered Bonds, the Australian Calculation Agent</p>
<b>Calculation Agent(s)</b>	The meaning given on page 115 of this Prospectus
<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 Loan
<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 or any Payment Holidays on the Loans in the Portfolio in accordance with the provisions of the LLP Deed
<b>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>Capital Requirements Regulation</b>	Regulation (EU) No 575/2013 the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
<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>	Lloyds Bank plc, in its capacity as cash manager or any successor cash manager appointed from time to time pursuant to the Cash Management Agreement
<b>CBTL</b>	The meaning given on page 82 of this Prospectus
<b>CCA</b>	Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	Consumer Credit Act 2006

<b>CRA</b>	Consumer Rights Act 2015
<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 relevant Originator in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation
<b>CFTC</b>	The meaning given on page 169 of this Prospectus
<b>Charged Property</b>	The meaning given on page 208 of this Prospectus
<b>Clearing Systems</b>	DTC, Euroclear, Clearstream, Luxembourg and/or Austraclear
<b>Clearstream, Luxembourg</b>	Clearstream Banking, <i>société anonyme</i> or its successors
<b>CMA</b>	Competition and Markets Authority
<b>CMIG</b>	The meaning given on page 163 of this Prospectus
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	Mortgage Code (as defined below)
<b>Code</b>	The meaning given on page 29 of this Prospectus
<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. SC095000)
<b>CONC</b>	The FCA's consumer credit sourcebook
<b>consolidated financial statements</b>	The meaning given on page 12 of this Prospectus
<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>	Intertrust Management Limited (formerly known as 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>Corporations Act</b>	Corporations Act 2001 (Cth) of Australia
<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, substantially</li> </ul>

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

- (c) if appertaining to a Bearer Definitive Covered Bond which is neither a Fixed Rate Covered Bond nor a Floating Rate Covered Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer

<b>Couponholders</b>	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons)
<b>Coupons</b>	The meaning given on page 116 of this Prospectus
<b>Covered Bond</b>	Each covered bond (including any A\$ Registered Covered Bonds and N Covered Bonds provided that the relevant N Covered Bondholder, in the case of the initial N Covered Bondholder, has entered into the related N Covered Bond Confirmation or, in the case of an assignee, has agreed to be bound by the terms of such N Covered Bond Confirmation by way of an N Covered Bond Assignment Agreement) issued or to be issued pursuant (except in the case of N Covered Bonds) to the Programme Agreement and which is or is to be constituted under the Trust Deed or, in relation to A\$ Registered Covered Bonds, the Australian Deed Poll, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond or, in the case of any N Covered Bond, by a relevant certificate 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 or, in the case of N Covered Bonds, equivalent provisions.
<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 Bonds</b>	The meaning given on page 1 of this Prospectus
<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 Agreements</b>	The meaning given on page 205 of this Prospectus
<b>Covered Bondholder</b>	The meaning given on page 118 of this Prospectus
<b>Covered Bond Swap Early Termination Event</b>	The meaning given on page 206 of this Prospectus
<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 or A\$ Registered Covered Bonds, the several persons whose names are entered in the register of holders of the Registered Covered Bonds or A\$ 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, Clearstream, Luxembourg or in the case of A\$ Registered Covered Bonds, Austraclear, 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 or, in the case of A\$ Registered Covered Bonds, Austraclear or its nominee, as the holder of a particular principal amount of the Covered Bonds 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 **Covered Bondholder**, **Holder** and **holder of Covered Bonds** and related expressions shall be construed accordingly

**CPUTR**

The meaning given on page 91 of this Prospectus

**CRA Regulation**

The meaning given on page 3 of this Prospectus

**CRD**

Directive 2006/49/EC of 14 June 2006 (as amended and restated) on the capital adequacy of investment firms and credit institutions (recast)

**CRD IV**

The meaning given on page 37 of this Prospectus

**Current Balance**

In relation to any Loan at any date (the **current balance determination date**), the aggregate at such date (but avoiding double counting) of:

- (a) the Initial Advance;
- (b) Further Advances and/or Flexible Loan Drawings;
- (c) Capitalised Expenses;
- (d) Capitalised Interest; and
- (e) all expenses, charges, fees, premium or payment due and owing by the Borrower which have not yet been capitalised

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; and

	In relation to any Mortgage Account at the current balance determination date, the aggregate at such date of the Current Balance in respect of each Loan comprised in the relevant Mortgage Account
<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>Cut-off Date</b>	Means the last day of the calendar month immediately preceding the date of the relevant Asset Coverage and Investor Report
<b>CVA</b>	The meaning given on page 35 of this Prospectus
<b>Day Count Fraction</b>	The meaning given in Condition 11(iii)(c) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) on page 131 of the Programme Conditions
<b>daily portions</b>	The meaning given on page 245 of this Prospectus
<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 Bank Corporate Markets plc (referred to throughout this Prospectus as the <b>Dealer</b> )
<b>Dealers</b>	The meaning given on page 1 of this Prospectus
<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>Deed of Novation</b>	The deed of novation and assignment dated 20 April 2012 entered into by, among others, the Issuer, the LLP, C&G and Lloyds Bank plc under which C&G novated its role as Servicer and Cash Manager to Lloyds Bank plc
<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 Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<b>Definitive Regulation S Covered Bond</b>	A Registered Covered Bond in definitive form sold to non-U.S. persons outside the U.S. in reliance on Regulation S
<b>Definitive Rule 144A Covered Bond</b>	A Registered Covered Bond in definitive form sold in the U.S. 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 Programme Conditions

<b>Designated Bank</b>	The meaning given in Condition 5.4 ( <i>Payments in respect of Registered Covered Bonds</i> ) of the Programme 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 Bank plc and the Liquidation Member
<b>Designated Members</b>	The meaning given on page 193 of this Prospectus
<b>Determination Date</b>	The meaning given in the applicable Final Terms
<b>Determination Period</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>DGS</b>	The meaning given on page 43 of this Prospectus
<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 under Part VI of the FSMA
<b>Disclosure Regulations</b>	The meaning given on page 247 of this Prospectus
<b>Discounted Discretionary Rate Loans</b>	Loans which allow the borrower to pay interest at a specified discount to a Discretionary Rate
<b>Discretionary Rate</b>	Standard Variable Rates and/or any other discretionary rates applicable to any Discretionary Rate Loans
<b>Discretionary Rate Loans</b>	Loans which are subject to either the Standard Variable Rates or to other Discretionary Rates for the life of the mortgage loan
<b>Discretionary Rates</b>	The meaning given on page 189 of this Prospectus
<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>Dodd-Frank Act</b>	The meaning given on page 169 of this Prospectus
<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>Due for Payment</b>	<p>The requirement by the LLP to pay any Guaranteed Amount:</p> <ul style="list-style-type: none"> <li>(a) following service of a Notice to Pay but prior to service of an LLP Acceleration Notice:</li> <li>(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 Original Due for Payment Date); and</li> <li>(ii) in relation to any Guaranteed Amount in respect of the Final</li> </ul>

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 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**

<b>Earliest Maturing Covered Bonds</b>	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)
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 6.7 ( <i>Early Redemption Amounts</i> ) of the Programme Conditions
<b>Early Repayment Charges</b>	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
<b>EBA</b>	The meaning given on page 38 of this Prospectus
<b>Eligibility Criteria</b>	The meaning given on page 181 of this Prospectus
<b>EMIR</b>	The meaning given on page 39 of this Prospectus
<b>EMU</b>	The meaning given on page 45 of this Prospectus
<b>English Loan</b>	A Loan, including a Halifax Loan, secured by a Mortgage over a Property located in England or Wales
<b>ERISA</b>	The meaning given on page 29 of this Prospectus
<b>ERISA Plans</b>	The meaning given on page 251 of this Prospectus
<b>ESMA</b>	The meaning given on page 73 of this Prospectus
<b>Established Rate</b>	The meaning given on page 138 of this Prospectus
<b>EU</b>	The European Union
<b>EURIBOR</b>	Euro-zone inter-bank offered rate

<b>Euroclear</b>	Euroclear Bank S.A./N.V. or its successors
<b>European Market Infrastructures Regulation</b>	The meaning given on page 152 of this Prospectus
<b>Excess Proceeds</b>	In accordance with the Terms and Conditions, moneys received (following service of an Issuer Acceleration Notice) by the Bond Trustee or the Australian 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 Agents</b>	The meaning given on page 115 of this Prospectus
<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 102 and in the case of Registered Covered Bonds, the meaning given on page 104 of this Prospectus
<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 222 of this Prospectus
<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>FATCA</b>	The meaning given on page 232 of this Prospectus
<b>FCA</b>	The meaning given on page 1 of this Prospectus
<b>FCA or Financial Conduct Authority</b>	Financial Conduct Authority of the United Kingdom
<b>Federal Reserve Board</b>	The meaning given on page 168 of this Prospectus
<b>FIEA</b>	The meaning given on page 258 of this Prospectus
<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 Programme 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 FCA 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>financial statements</b>	The meaning given on page 12 of this Prospectus
<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 or by BOS (in respect of the Halifax Loans)
<b>Flexible Draw Capacity</b>	The meaning given on page 197 of this Prospectus
<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 4.5 ( <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>FOIA</b>	The meaning given on page 166 of this Prospectus
<b>Following Business Day</b>	The meaning given in Condition 4.5 ( <i>Business Day, Business Day</i>

<b>Convention</b>	<i>Convention, Day Count Fractions and other adjustments</i> ) of the Programme Conditions
<b>Foreign Currency Covered Bond</b>	The meaning given on page 243 of this Prospectus
<b>foreign passthru payments</b>	The meaning given on page 229 of this Prospectus
<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>FSA</b>	The meaning given on page 11 of this Prospectus
<b>FSA or Financial Services Authority</b>	The Financial Services Authority of the United Kingdom (from 1 April 2013, the Financial Conduct Authority or the Prudential Regulatory Authority, as applicable)
<b>FSCS</b>	The meaning given on page 40 of this Prospectus
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>FTT</b>	The meaning given on page 70 of this Prospectus
<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>FVA</b>	The meaning given on page 35 of this Prospectus
<b>GDPR</b>	The meaning given on page 36 of this Prospectus
<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 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 definition of "Lloyds Bank Group"
<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 220 of this Prospectus
<b>Guarantor</b>	Lloyds Bank Covered Bonds LLP
<b>Halifax</b>	The meaning given on page 163 of this Prospectus
<b>Halifax Index</b>	index of movements in house prices in relation to residential properties in the United Kingdom currently known as the "Halifax House Price Index" published by Markit Group Limited or any of its successors or assigns
<b>Halifax Loan</b>	Each Loan originated by BOS under the Halifax brand
<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>Halifax Standard Variable Rate</b>	The standard variable rate set by BOS in relation to applicable Variable Rate Loans (other than Tracker Loans) beneficially owned by BOS on BOS's residential mortgage book
<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>Help to Buy Scheme</b>	The meaning given on page 46 of this Prospectus
<b>HMRC</b>	Her Majesty's Revenue and Customs
<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 Bank 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>holder of Covered Bonds</b>	The meaning given on page 118 of this Prospectus
<b>ICSDs</b>	The meaning given on page 207 of this Prospectus
<b>IFRS</b>	The meaning given on page 12 of this Prospectus
<b>Indexed Valuation</b>	In relation to any Loan secured over any Property at any date: <ul style="list-style-type: none"> <li>(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</li> </ul>

- (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

**Indirect Participants**

Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly

**Initial Advance**

In relation to a Loan, the original principal amount advanced by the relevant Originator including any retention(s) advanced to the relevant Borrower in accordance with the Mortgage Conditions after completion of the Mortgage but excluding any:

- (a) Further Advance; and
- (b) Flexible Loan Drawing,

in each case relating to any such Loan

**Initial Portfolio**

The meaning given on page 226 of this Prospectus

**Insolvency Act**

Insolvency Act 1986, as amended

**Insolvency Event**

In respect of the Seller, the Servicer or Cash Manager:

- (a) an order is made or an effective resolution passed for the 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

In respect of BOS:

- (a) an order is made or an effective resolution passed for its

winding up; or

- (b) it 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 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 it under any applicable liquidation, administration, reorganisation (other than a reorganisation where it 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 it 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 it and in any of the foregoing cases it is not discharged within 15 London business days; or if it 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 Schedule 8 to the Mortgage Sale Agreement
<b>Insurance Policies</b>	means the Properties in Possession Cover 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>Intercompany Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on or about 20 April 2012 between Bank of Scotland plc, Lloyds Bank plc (in its capacity as Purchaser thereunder), the LLP 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 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</i> ) of the Programme 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 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, the meaning given in Condition 11(iii)(a) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>Interest Period</b>	In accordance with Condition 4.5 ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme 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 190 of this Prospectus
<b>Interest Rate Shortfall Test</b>	The meaning given on page 190 of this Prospectus
<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 204 of this Prospectus
<b>Interest Rate Swap Provider</b>	Lloyds Bank plc whose registered office is at 25 Gresham Street, London EC2V 7HN 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 Programme Conditions
<b>Investor's Currency</b>	The meaning given on page 98 of this Prospectus
<b>IRS</b>	The meaning given on page 243 of this Prospectus
<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</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 11(iii)(b)(i) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme 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 Bank plc
<b>Issuer Acceleration Notice</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Programme 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 Programme Conditions
<b>Issuer Event of Default</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) of the Programme Conditions
<b>Issuer Subordinated Loan</b>	The meaning given on page 193 of this Prospectus
<b>Issuer's 2015 Annual Report</b>	The meaning given on page 14 of this Prospectus
<b>Issuer's 2016 Annual Report</b>	The meaning given on page 14 of this Prospectus
<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>landlord</b>	The meaning given on page 230 of this Prospectus
<b>Late Payment</b>	The meaning given in Condition 6.11 ( <i>Taxes</i> ) of the Programme 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 another member of the Lloyds Banking Group
<b>LBCM</b>	The meaning given on page 11 of this Prospectus
<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 (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 relevant Originator 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 Bank 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>Liquidity Coverage Ratio</b>	The meaning given on page 97 of this Prospectus
<b>Listing Rules</b>	The Listing Rules made under Part VI of the FSMA
<b>Lloyds Bank</b>	The meaning given on page 11 of this Prospectus
<b>Lloyds Bank Group</b>	The Issuer and its subsidiary and associated undertakings
<b>Lloyds Bank Group, Lloyds</b>	The meaning given on page 11 of this Prospectus
<b>Lloyds Bank 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>Lloyds Banking Group</b>	The Company and its subsidiary and associated undertakings

<b>Lloyds Group</b>	The Company and its subsidiary and associated undertakings but excluding the HBOS Group
<b>LLP</b>	Lloyds Bank Covered Bonds LLP, a limited liability partnership incorporated in England and Wales (registered no. OC340094)
<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 Programme 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 relevant standard variable rate applicable to the relevant Variable Rate Loans in the Portfolio as set, other than in limited circumstances, by the Servicer as set out in Clause 4 of the Servicing Agreement and, following the delivery of perfection notices in accordance with Clause 6 of the Mortgage Sale Agreement and Clause 3.5 of the Servicing Agreement, shall mean the standard variable rate applied to the relevant Variable Rate Loan in the Portfolio
<b>LLPA</b>	The meaning given on page 68 of this Prospectus
<b>LLPA</b>	Limited Liability Partnerships Act 2000 as amended from time to time and any regulations made pursuant to that Act
<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 moneys (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>LSA</b>	The meaning given on page 169 of this Prospectus
<b>LTSB</b>	The meaning given on page 163 of this Prospectus
<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>Markets in Financial Instruments Directive</b>	Directive 2004/39/EC
<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, 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 under the FSMA on 31 October 2004, as amended, revised or supplemented from time to time
<b>Member</b>	Each member of the LLP
<b>Members</b>	The meaning given on page 193 of this Prospectus
<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>MIFs</b>	The meaning given on page 169 of this Prospectus
<b>MiFID</b>	The meaning given on page 43 of this Prospectus
<b>MiFID II</b>	The meaning given on page 1 of this Prospectus
<b>MiFIR</b>	The meaning given on page 43 of this Prospectus
<b>Minimum Rate of Interest</b>	In respect of Floating Rate 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 11(iii)(b)(iii) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme 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 the related Mortgage Conditions provide for such other adjustment of the business day convention
<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 UK 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 BOS' 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 Credit Directive</b>	The meaning given on page 78 of this Prospectus
<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>MREL</b>	The meaning given on page 40 of this Prospectus
<b>N Covered Bond</b>	A registered Covered Bond in definitive form made out in the name of a specified N Covered Bondholder issued or to be issued by the Issuer in accordance with the provisions of the Agency Agreement and in accordance with and constituted by the Trust Deed, in the form of a German "Namesschuldverschreibung" substantially in the form set out in Schedule 7 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant N Covered Bondholder and having the N Covered Bond Conditions applicable to it annexed thereto and subject to the provisions of the N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating thereto

<b>N Covered Bond Assignment Agreement</b>	The assignment agreement attached to each N Covered Bond, substantially in the form set out at Schedule 6 to the Trust Deed
<b>N Covered Bond Conditions</b>	The terms and conditions of each N Covered Bond annexed thereto
<b>N Covered Bond Confirmation</b>	In relation to each N Covered Bond, a confirmation incorporating the N Covered Bond Confirmation Terms and signed by the N Covered Bondholder, the LLP, the Issuer and the Bond Trustee, substantially in the form set out in Schedule 6 to the Trust Deed
<b>N Covered Bond Confirmation Terms</b>	The standard set of confirmation terms relating to each N Covered Bond, substantially in the form set out in Schedule 6 to the Trust Deed as may be amended from time to time in accordance with the Trust Deed
<b>N Covered Bondholder</b>	The registered holder of an N Covered Bond as recorded as such in the Register by the Registrar
<b>Negative Carry Factor</b>	The meaning given on page 196 of this Prospectus
<b>Net Stable Funding Ratio</b>	The meaning given on page 97 of this Prospectus
<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 an Originator 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 226 of this Prospectus
<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 Safekeeping Structure</b>	The safekeeping structure for registered notes set out in the press release of the ECB dated 22 October 2008 and titled "Evolution of the custody arrangements for international debt services and their eligibility in Euro system credit operations"
<b>New Seller</b>	Any member of the Lloyds Banking Group (other than Lloyds 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-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>Non-U.S. holders</b>	The meaning given on page 248 of this Prospectus
<b>Notice to Pay</b>	The meaning given in Condition 9.1 ( <i>Issuer Events of Default</i> ) on of the Programme Conditions
<b>NYDFS</b>	The meaning given on page 168 of this Prospectus
<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 FCA
<b>OFT or Office of Fair Trading</b>	The UK Office of Fair Trading, which from 1 April 2014 ceased to exist
<b>OID Regulations</b>	The meaning given on page 244 of this Prospectus
<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>Originator</b>	Lloyds Bank plc and/or BOS (in respect of only the Halifax Loans), as the context may require
<b>OTC</b>	The meaning given on page 38 of this Prospectus
<b>Outstanding</b>	In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:

- (a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Deed and/or the N Covered Bond Conditions;
- (b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Programme Conditions or in the case of an N Covered Bond, the N Covered Bond Conditions (if applicable) has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal 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) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions) 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) of the Programme Conditions and any equivalent provision in the N Covered Bond Conditions;
- (d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (Prescription) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions;
- (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) of the Programme Conditions or the equivalent provisions of the N Covered Bond Conditions;
- (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) of the Programme Conditions or, in the case of an N Covered Bond, pursuant to the relevant N Covered Bond Conditions (if applicable);
- (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) of the Programme Conditions 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,

(A) 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 and (B) those N Covered Bonds in respect of which (i) a duly executed N Covered Bond Confirmation (incorporating the N Covered Bond Confirmation Terms) relating to the relevant Series of Covered Bond has not been executed and has not been delivered to the Registrar or (ii) where an N Covered Bond is proposed to be assigned, a duly executed N Covered Bond Assignment Agreement relating to the relevant Series of N Covered Bonds has not been executed and has not been delivered to the Registrar, 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>part Coupon sheet</b>	The meaning given on page 149 of this Prospectus
<b>Partial Portfolio</b>	Part of any portfolio of Selected Loans
<b>parties in interest or disqualified persons</b>	The meaning given on page 251 of this Prospectus
<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement and, in relation to the A\$ Registered Covered Bonds, the Australian Agency Agreement
<b>Payment Day</b>	The meaning given in Condition 5.7 ( <i>Payment Day</i> ) of the Programme 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 relevant Originator and/or Servicer
<b>PCA</b>	The meaning given on page 49 of this Prospectus
<b>Permanent Global Covered Bond</b>	The meaning given on page 102 of this Prospectus
<b>Plan Asset Regulation</b>	The meaning given on page 251 of this Prospectus
<b>Plans</b>	The meaning given on page 251 of this Prospectus

<b>Plevin</b>	The meaning given on page 44 of this Prospectus
<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>Portfolio Manager</b>	The meaning given on page 200 of this Prospectus
<b>Post-Enforcement Priority of Payments</b>	The meaning given on page 224 of this Prospectus
<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 Programme 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 Programme Conditions
<b>PPI</b>	The meaning given on page 80 of this Prospectus
<b>PRA</b>	The meaning given on page 11 of this Prospectus
<b>PRA or Prudential Regulatory Authority</b>	The Prudential Regulation Authority of the United Kingdom
<b>Pre-Acceleration Principal Priority of Payments</b>	The meaning given on page 219 of this Prospectus
<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 of Payments</b>	The meaning given on page 216 of this Prospectus
<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 Programme 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 211-212 of this Prospectus
<b>Pre-Maturity Liquidity Test Breach 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 11(iii)(f) ( <i>Business Day, Business Day Convention, Day Count Fractions and other adjustments</i> ) of the Programme 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>PRIIPs Regulation</b>	The meaning given on page 5 of this Prospectus
<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, only in respect of Loans which are not Halifax Loans, 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 Period</b>	The meaning given on page 228 of this Prospectus
<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; or</li> <li>(d) any variation in the frequency with which the interest payable in respect of the Loan is charged</li> </ul>
<b>Programme</b>	€60 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 Conditions</b>	The Conditions set out under the heading <i>Terms and Conditions of the Covered Bonds</i> and as set out in Schedule 1 to the Trust Deed
<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 Programme Conditions
<b>Properties in Possession Cover</b>	The properties in possession cover written by Lloyds Bank General Insurance Limited for Loans in favour of the relevant Originator 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 be issued from time to time in favour of the relevant Originator
<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</b>	The meaning given on page 4 of this Prospectus
<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 (as amended or superseded)
<b>Prospectus Rules</b>	The prospectus rules made under Part VI of the FSMA
<b>PSR</b>	The meaning given on page 157 of this Prospectus
<b>PTCE</b>	The meaning given on page 251 of this Prospectus
<b>Purchaser</b>	Any third party or the Seller or, subject to the terms of the Mortgage Sale Agreement, BOS 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 140
<b>QIB</b>	A "qualified institutional buyer" within the meaning of Rule 144A
<b>QIBs</b>	The meaning given on page 8 of this Prospectus
<b>qualified professional asset manager</b>	The meaning given on page 251 of this Prospectus
<b>qualified stated interest</b>	The meaning given on page 245 of this Prospectus
<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 Programme 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 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>recast DGSD</b>	The meaning given on page 43 of this Prospectus
<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>Receipts</b>	The meaning given on page 116 of this Prospectus

<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 Programme 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 Programme Conditions
<b>Reference Banks</b>	In the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market selected by the Cash Manager
<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, EURIBOR or LIBOR (or, in respect of A\$ Registered Covered Bonds, BBSW) in respect of the Specified Currency in each case for the relevant period, as specified 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 other than an A\$ Registered Covered Bond
<b>Registered Definitive Covered Bond</b>	each other 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 Programme Conditions (if applicable) by reference (where applicable to the Trust Deed) and having the relevant information supplementing, replacing or modifying the Programme Conditions attached thereto and having a Form of Transfer endorsed thereon
<b>Registered Definitive Covered Bonds</b>	The meaning given on page 116 of this Prospectus
<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 SA/NV, Luxembourg Branch, 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 Authorities pursuant to the RCB Regulations

<b>regulated market of the London Stock Exchange</b>	The meaning given on page 1 of this Prospectus
<b>regulated mortgage contract</b>	The meaning given on page 81 of this Prospectus
<b>Regulation Effective Date</b>	The meaning given on page 81 of this Prospectus
<b>Regulation No. 11971</b>	The meaning given on page 258 of this Prospectus
<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 Covered Bonds</b>	The meaning given on page 8 of this Prospectus
<b>Regulation S Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the U.S. 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 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 Programme Conditions
<b>relevant Dealer</b>	The meaning given on page 1 of this Prospectus
<b>Relevant Implementation Date</b>	The meaning given on page 257 of this Prospectus
<b>Relevant LLP Payment Period</b>	The meaning given on page 190 of this Prospectus
<b>Relevant Member State</b>	The meaning given on page 6 of this Prospectus
<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>relevant Series of Covered Bonds</b>	The meaning given on page 70 of this Prospectus
<b>relevant Talon</b>	The meaning given on page 149 of this Prospectus
<b>Reportable Transactions</b>	The meaning given on page 247 of this Prospectus
<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 198 of this Prospectus
<b>Required Redemption Amount</b>	The meaning given on page 199 of this Prospectus
<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>	(a) If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least F1+ by Fitch and P-1 by Moody's, nil or such other amount as Lloyds Bank plc shall direct the LLP from time to time; or

- (b) if the Issuer's short term, unsecured, unsubordinated and unguaranteed debt obligations are rated lower than P-1 by Moody's, 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 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; or

- (c) if the Issuer's short term, unsecured, unsubordinated and unguaranteed debt obligations are rated lower than F1+ by Fitch, an amount equal to the Sterling Equivalent of the interest due on each Series of Covered Bonds on the immediately following three LLP Payment Dates together with an amount equal to three-twelfths of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (b) of the Pre-Acceleration Revenue Priority of Payments plus £600,000, or such higher amount as the Issuer shall direct the LLP from time to time

**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

**resolution authorities**

The meaning given on page 40 of this Prospectus

**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, but excluding, without double counting, (i) amounts received or treated as received in respect of Halifax Loans prior to perfection but after completion of the enforcement procedures and (ii) amounts received or treated as received after completion of the enforcement procedures which are captured under the definition of "Principal Receipts") 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
<b>RFBs or ring-fenced bodies</b>	The meaning given on page 34 of this Prospectus
<b>Right To Buy Legislation</b>	The meaning given on page 230 of this Prospectus
<b>Right to Buy Loan</b>	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)
<b>Ring-fencing Rules</b>	The meaning given on page 35 of this Prospectus
<b>Rule 144A</b>	Rule 144A under the Securities Act
<b>Rule 144A Covered Bond</b>	A Covered Bond represented by a Rule 144A Global Covered Bond and/or a Definitive Rule 144A Covered Bond as the context may require
<b>Rule 144A Covered Bonds</b>	The meaning given on page 8 of this Prospectus
<b>Rule 144A Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold in the U.S. 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)
<b>Rules</b>	The rules, regulations and procedures creating and affecting DTC and its operations
<b>S&amp;P</b>	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or its successors
<b>Sabadell</b>	The meaning given on page 50 of this Prospectus
<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 Programme 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 Programme 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 Programme 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>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, including Halifax Loans, 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 assignation 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) ( <i>Interest on Floating Rate Covered Bonds</i> ) of the Programme Conditions
<b>SEC</b>	The meaning given on page 8 of this Prospectus
<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 Australian Bond Trustee (in its own capacity and on behalf of the A\$ 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 208 of this Prospectus
<b>Security Trustee</b>	BNY Mellon 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 or BOS (as applicable, and

	in accordance with the terms of the Mortgage Sale Agreement) 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 or BOS (as applicable, and in accordance with the terms of the Mortgage Sale Agreement) 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 Programme Conditions
<b>Seller</b>	Lloyds 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>	(i) With respect to N Covered Bonds, each N Covered Bond made out in the name of a specific N Covered Bondholder; and (ii) in any other case, 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>	<p>In relation to Covered Bonds of a Series:</p> <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 modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;</li> <li>(b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;</li> <li>(c) alteration of the majority required to pass an Extraordinary Resolution;</li> <li>(d) any amendment to the Covered Bond Guarantee or the Deed of Charge;</li> <li>(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</li> </ul>

	persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and
	(f) alteration of paragraph 5 or proviso to paragraph 6 of Schedule 4 to the Trust Deed
<b>Servicer</b>	Lloyds Bank plc in its capacity as servicer under the Servicing Agreement (and any successor servicer)
<b>Servicer Termination Event</b>	The meaning given on page 191 of this Prospectus
<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>	Intertrust Corporate Services Limited (formerly 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>Short-Term Covered Bonds</b>	The meaning given on page 247 of this Prospectus
<b>SIMILAR LAW</b>	The meaning given on page 255 of this Prospectus
<b>SMCR</b>	The meaning given on page 37 of this Prospectus
<b>SME</b>	The meaning given on page 32 of this Prospectus
<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars, A\$ 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, save that the minimum denomination of each U.S. dollar denominated Covered Bond will be issued in minimum denominations of U.S.\$200,000 (and no less than the equivalent of €100,000) and in integral multiples of \$1,000 in excess thereof
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
<b>Specified Period</b>	In respect of Floating Rate Covered Bonds the meaning (if any) given in the applicable Final Terms
<b>Specified Time</b>	11.00 am (London time, in the case of determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR or Sydney time, in the case of a determination of BBSW))
<b>SRB</b>	The meaning given on page 35 of this Prospectus
<b>SRR</b>	Special Resolution Regime under the Banking Act 2009
<b>Stabilising Manager(s)</b>	The meaning given on page 6 of this Prospectus
<b>Standard Documentation</b>	The standard documentation, annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the relevant Originator 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 Bank Standard Variable Rate, the Halifax Standard Variable Rate (in the case of Halifax Loans) 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>	<p>Each of:</p> <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities;</li> <li>(b) Sterling demand or time deposits, 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; and</li> <li>(c) Sterling denominated government and public securities, as defined from time to time by the FCA, 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,</li> </ul> <p>provided that such Substitution Assets comply with the requirements of Regulation 2(1A) 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 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</p>
<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 Programme 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>Supplemental Prospectus</b>	The meaning given on page 16 of this Prospectus
<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 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 Programme 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> ) of the Programme Conditions, 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, 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</b>	The meaning given on page 107 of this Prospectus
<b>Terms and Conditions or Conditions</b>	Collectively, the terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed) as modified and/or supplemented by the Final Terms in relation to a particular Series of Covered Bonds, as the same may from time to time be modified in accordance with the Trust Deed and relevant terms and conditions in respect of N Covered Bonds
<b>Third Party Amounts</b>	<p>Each of:</p> <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;</li> <li>(b) payments by Borrowers of insurance premiums and other expenses due to external parties; or</li> <li>(c) prior to perfection, amounts received or treated as received after completion of the enforcement procedures in respect of Halifax Loans;</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 which is subject to an interest rate linked to the Bank of England's official base rate (the base rate) as set by the UK Monetary Policy Committee or such alternative rate or index which is not controlled by the relevant Originator, that the relevant Originator considers to be the most appropriate in the circumstances
<b>Tracker Loans</b>	The meaning given on page 226 of this Prospectus
<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 (other than N 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 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) Intercompany Mortgage Sale Agreement</li> <li>(r) the Final Terms as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement</li> <li>(s) each subscription agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(t) Master Definitions and Construction Agreement</li> <li>(u) Australian Agency Agreement</li> <li>(v) Australian Deed Poll</li> <li>(w) 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 (or, in the case of N Covered Bonds, the Registrar), 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 Agents</b>	The meaning given on page 115 of this Prospectus
<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>Treaty</b>	The meaning given on page 139 of this Prospectus
<b>TSB</b>	TSB Bank plc
<b>TSB Group</b>	The meaning given on page 163 of this Prospectus
<b>U.S. holder</b>	The meaning given on page 242 of this Prospectus
<b>UCITS Directive</b>	The meaning given on page 93 of this Prospectus
<b>UK</b>	The meaning given on page 1 of this Prospectus
<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 relevant Originator (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 relevant Originator 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 relevant Originator (or his successor)
<b>Valuer</b>	An Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers 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 relevant Originator from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Lloyds Banking Group
<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>VAT</b>	<b>VAT or Value Added Tax</b> means value added tax imposed by the United Kingdom under the Value Added Tax Act 1994 and legislation (whether delegated or otherwise) replacing the same or supplemental

thereto or in any primary or subordinate legislation promulgated by the European Union or any official body or agency thereof, and any similar turnover tax replacing or introduced in addition to any of the same

**VIF**

The meaning given on page 47 of this Prospectus

**Volcker Rule**

The meaning given on page 158 of this Prospectus

**Yield Shortfall Test**

The meaning given on page 190 of this Prospectus

**yield to maturity**

The meaning given on page 245 of this Prospectus

**Zero Coupon Covered Bonds**

Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

**ISSUER**  
**Lloyds Bank plc**  
25 Gresham Street  
London EC2V 7HN

**LLP**  
**Lloyds Bank Covered Bonds LLP**  
35 Great St. Helen's  
London EC3A 6AP

**ARRANGER**  
**Lloyds Bank Corporate Markets plc**  
10 Gresham Street  
London EC2V 7AE

**DEALER**  
**Lloyds Bank Corporate Markets plc**  
10 Gresham Street  
London EC2V 7AE

**SECURITY TRUSTEE AND BOND TRUSTEE**  
**BNY Mellon Corporate Trustee Services Limited**  
One Canada Square  
London E14 5AL

**AUSTRALIAN BOND TRUSTEE**  
**The Bank of New York Mellon, London Branch**  
One Canada Square  
London E14 5AL

**PRINCIPAL PAYING AGENT AND EXCHANGE  
AGENT**

**The Bank of New York Mellon, London Branch**  
  
One Canada Square  
London E14 5AL

**REGISTRAR**

**The Bank of New York Mellon SA/NV, Luxembourg  
Branch**  
  
Vertigo Building - Polaris – 2-4 rue Eugène Ruppert  
L-2453 – Luxembourg

**AUSTRALIAN PAYING AGENT, AUSTRALIAN  
REGISTRAR AND AUSTRALIAN CALCULATION AGENT**  
**BTA Institutional Services Australia Limited**  
**(ABN 48 002 916 396)**  
Level 2, 1 Bligh Street  
Sydney NSW 2000  
Australia

**AUDITORS**  
*To the LLP and the Issuer*  
**PricewaterhouseCoopers LLP**  
7 More London Riverside  
London, SE1 2RT

**LEGAL ADVISERS**

*To the Issuer, the LLP and the Seller  
as to English and U.S. law*  
**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD

*To the Issuer, the LLP and the Seller as to  
Australian law*  
**Allen & Overy**  
Level 25, 85 Castlereagh Street  
Sydney NSW 2000  
Australia

*To the Issuer, the LLP and the Seller  
as to German law*  
**Allen & Overy LLP**  
Taunustor 2  
60311 Frankfurt am Main  
Frankfurt, Germany

*To the Dealer as to US law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD

*To the Issuer, the LLP and the Seller  
as to Scots law*

**CMS Cameron McKenna LLP**  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN

*To the Dealer as to English law*

**Clifford Chance LLP**  
10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

*To the Dealer as to Australian law*

**Clifford Chance LLP**  
Level 16  
No. 1 O'Connell Street  
Sydney, NSW 2000  
Australia

*To the Dealer as to German law*

**Clifford Chance LLP**  
Mainzer Landstrasse 46  
60325 Frankfurt am Main  
Frankfurt  
Germany

*To the Dealer as to U.S. law*

**Clifford Chance US LLP**  
31 West 52nd Street  
New York, New York 10019

*To the Security Trustee and the Bond Trustee as to English law*

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