A guide to our ring-fencing approach and transfer scheme

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Introduction

In this guide we explain more about our ring-fencing plans, how these could affect your business’s banking arrangements and how you can object to the carrying out of the ring-fencing transfer scheme (RFTS) used to effect the transfer of some products to Lloyds Bank Corporate Markets plc\(^1\) and which the Court must approve. Your Relationship Manager will have already shared some of this information with you and discussed the effects for your current and future relationship with Lloyds Banking Group as a result of the changes we are making in order to comply with the ring-fencing legislation. You should nonetheless read this guide carefully and discuss with your Relationship Manager if you have any concerns or queries.

Although ring-fencing will affect clients with business booked outside of the UK too, this guide and letter are only intended for clients with business booked in the UK and which is subject to the law of a jurisdiction within the UK. You will receive a separate communication if you have business booked in other jurisdictions.

\(^1\)Lloyds Bank Corporate Markets plc is the legal name for Lloyds Banking Group’s new non-ring-fenced bank. Lloyds Bank Corporate Markets plc was authorised with restrictions on 25 July 2017, and is now included on the Financial Services Register (Reference number: 763256). Until the restrictions are removed by the Prudential Regulation Authority (PRA), Lloyds Bank Corporate Markets plc is limited in its ability to undertake or have migrated to it any regulated financial services activities.

Section 1: Background to ring-fencing and our approach

Following the financial crisis, UK legislation was passed to better protect retail and business banking customers and the day-to-day banking services they rely on. Broadly the new rules mean large UK banks must separate personal and business activities such as current and savings accounts, from risks in other parts of the business such as complex wholesale banking. This is called ‘ring-fencing’. Banks are taking different approaches to how they are implementing these rules and are making changes now, to complete them by 1 January 2019.

The legislation requires all UK banking groups with core deposits (broadly deposits from Retail and Small Business clients) of over £25bn (averaged over a 3 year period) in the UK and their branches in the European Economic Area (EEA), to separate their activities into:

- A ring-fenced bank (RFB) – for retail activities, which is also permitted to carry on most commercial activities
- A non-ring-fenced bank (NRFB) – for complex wholesale client banking needs and banking that is booked outside the European Economic Area (EEA).

We are setting up Lloyds Bank Corporate Markets plc as our non-ring-fenced bank so that we can continue to offer most of the products and services which will no longer be available from Lloyds Bank plc and Bank of Scotland plc (the ring-fenced banks) under the new legislation. Our plans are currently being reviewed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Both the ring-fenced banks and non-ring-fenced bank will remain part of the wider Lloyds Banking Group but will operate as separate banks.

Ring-fencing is being introduced under the Financial Services and Markets Act 2000, as amended by the Financial Services (Banking Reform) Act 2013 (“FSMA”), and secondary legislation and regulatory rules and guidance made pursuant to FSMA.

You can find more information about ring-fencing at:

**The Bank of England website** [www.bankofengland.co.uk/pra/pages/supervision/structuralreform](http://www.bankofengland.co.uk/pra/pages/supervision/structuralreform)

**Financial Conduct Authority website** [www.fca.org.uk/consumers/ring-fencing](http://www.fca.org.uk/consumers/ring-fencing)

**Lloyds Banking Group** [www.lloydsbankinggroup.com/ringfencing](http://www.lloydsbankinggroup.com/ringfencing)

Key elements of ring-fencing

- Ring-fenced banks will continue to provide core retail products and services, but cannot conduct other activities such as complex wholesale banking\(^2\) which are not permitted to be carried on by ring-fenced banks under the ring-fencing legislation. Additionally, ring-fenced banks cannot own or operate branches outside the EEA or hold interests in shares above a certain threshold\(^3\) in undertakings outside the EEA.

- Ring-fenced banks need to have adequate separation from non-ring-fenced banks and other group entities which undertake activities that are no longer permitted under the ring-fencing legislation.

The ring-fencing legislation sets out the core retail activities that can only be provided within ring-fenced banks and the complex activities that cannot. Beyond this there is a degree of flexibility for banks.

\(^2\)Complex wholesale banking includes undertakings such as certain types of Capital Markets & Financial Markets activity, though this is not exhaustive and other complex activities are also excluded – refer to the table in the section on Our Commercial Banking proposition for a complete product overview.

\(^3\)This restriction will in almost all cases include subsidiaries.
Example of the activities permitted and not permitted in ring-fenced banks

<table>
<thead>
<tr>
<th>Mandated within the ring-fenced banks</th>
<th>Not permitted from the ring-fenced banks</th>
<th>Permitted in either the ring-fenced or non-ring-fenced banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Core deposit taking (e.g. retail and small business deposit-taking)</td>
<td>▪ Trading and selling securities, commodities and complex derivatives</td>
<td>▪ Deposit taking activities for large corporates, high net worth individuals and Relevant Financial Institutions (RFIs) (provided certain procedural requirements are met)</td>
</tr>
<tr>
<td>▪ Trading and selling securities, commodities and complex derivatives</td>
<td>▪ Exposures to Relevant Financial Institutions (RFIs)</td>
<td>▪ Lending to individuals and non-RFI corporates</td>
</tr>
<tr>
<td>▪ Operations (branches / subsidiaries) outside the EEA</td>
<td>▪ Underwriting securities</td>
<td>▪ Holding own securitisations</td>
</tr>
<tr>
<td>▪ Underwriting securities</td>
<td>▪ Buying securitisations of other financial institutions</td>
<td>▪ Payment services</td>
</tr>
<tr>
<td>▪ Buying securitisations of other financial institutions</td>
<td>▪ Deposit taking activities for large corporates, high net worth individuals and Relevant Financial Institutions (RFIs) (provided certain procedural requirements are met)</td>
<td>▪ Hedging liquidity, interest rate, currency, commodity and credit risks</td>
</tr>
<tr>
<td>▪ Deposit taking activities for large corporates, high net worth individuals and Relevant Financial Institutions (RFIs) (provided certain procedural requirements are met)</td>
<td>▪ Lending to individuals and non-RFI corporates</td>
<td>▪ Selling simple derivatives to non-RFI</td>
</tr>
</tbody>
</table>

This is a high level overview of the relevant activities, and is not intended as a full explanation of the legislation, please refer to the ring-fencing legislation and rules for further detail.

Perimeter rules that apply to ring-fenced banks

There are five broad criteria for assessing whether a transaction is allowed within the ring-fence. These criteria apply to all transactions within the ring-fenced part of Lloyds Banking Group. A summary of these is included below.

Context

▪ Ring-fencing applies to all banking groups that have £25bn or more of UK and EEA consumer and small business deposits

▪ The regulatory perimeter can be explained through five key classification criteria, summarised below, which determine whether products can be offered to customers by a RFB

▪ These criteria may overlap and all criteria apply to every transaction Lloyds Banking Group undertakes with customers

<table>
<thead>
<tr>
<th>Client</th>
<th>Product</th>
<th>Geography</th>
<th>Timing</th>
<th>Purpose Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who is the exposure to?</td>
<td>What is the Product booked?</td>
<td>Where is the Product booked?</td>
<td>When does the Product mature?</td>
<td>What is the purpose of the transaction?</td>
</tr>
<tr>
<td>❌ No exposures to Relevant Financial Institutions (RFI)¹</td>
<td>❌ No dealing in investments as principal or commodities trading by the RFB</td>
<td>❌ No non-EEA (European Economic Area²) branches of the RFB</td>
<td>✅ Investments (e.g. derivatives) created/acquired by RFB before 1 January 2019 which mature before 1 January 2021 can be held in the RFB</td>
<td>✅ All activity managing the RFB’s own risk and/or liquidity can be conducted by the RFB</td>
</tr>
<tr>
<td>❌ RFBs are unable to incur financial exposures to institutions classified as RFIs unless an exemption applies</td>
<td>✗ Some exceptions apply, e.g. for certain ‘simple’ derivatives to non-RFIs, subject to certain quantitative thresholds</td>
<td>✗ No participating interest of the RFB in entities incorporated outside the EEA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

¹ Relevant Financial Institution: Entities identified by ring-fencing legislation that the RFB cannot provide with credit exposures

² The European Economic Area: includes EU countries and Iceland, Liechtenstein and Norway
Lloyds Banking Group’s new structure

- Two new legal entities are being created under Lloyds Banking Group plc: Lloyds Bank Corporate Markets plc and Lloyds Banking Group Equity Investments HoldCo.
- Lloyds Bank Corporate Markets plc is the business name for Lloyds Banking Group’s new Non-Ring-Fenced Bank. Lloyds Bank Corporate Markets plc was authorised with restrictions on 25 July 2017, and is now included on the Financial Services Register (Reference number: 763256). Until the restrictions are removed by the Prudential Regulation Authority (PRA), Lloyds Bank Corporate Markets plc is limited in its ability to undertake or have migrated to it any regulated financial services activities.
- The Non-Ring-Fenced Sub-Group will include branches in the US, Singapore and the Crown Dependencies and subsidiaries in North America, Singapore, Jersey and Guernsey, together with Gibraltar.
- Ring-fencing legislation assumes the UK is part of the EEA and therefore the legal entity structure is subject to change in light of Brexit implications.

**Notes:**
Entity structure as shown is simplified and indicative only: This slide is a summary of key booking entities for Commercial Banking Clients.

**Relevant Financial Institution (RFI) classification**

To comply with ring-fencing requirements we need to identify clients whose business activities mean they are classified as a Relevant Financial Institution (RFI). You will have been notified by your usual point of contact of any legal entities within your Group that have been classified as a RFI.

Lloyds Bank plc and other members of the ring-fenced sub-group cannot have exposures (such as overdrafts or loans) to RFIs, unless they're covered by an exemption. Lloyds Bank plc and other members of the ring-fenced sub-group will however still be permitted to have non exposure bearing products with RFI clients.
Rfine classifications explained

Please find below a summary of the definitions of RFI classifications:

<table>
<thead>
<tr>
<th>RFI classifications</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Institutions (Banks)</strong></td>
<td>• An undertaking whose business is to take deposits or other repayable funds from the public and to grant credits for its own account i.e. a Bank.</td>
</tr>
<tr>
<td><strong>Relevant exceptions include:</strong> other ring-fenced banks, building societies, EEA mutuals, credit unions, central banks and certain supranational organisations.</td>
<td></td>
</tr>
<tr>
<td><strong>Investment Firms</strong></td>
<td>• A legal person whose regular occupation or business is (i) the provision of one or more MiFID investment services to third parties; and/or (ii) the performance of one or more MiFID investment activities, on a professional basis.</td>
</tr>
<tr>
<td><strong>Relevant exceptions include:</strong> certain investment firms that are not authorised to deal in investments as principal or as agent.</td>
<td></td>
</tr>
<tr>
<td><strong>Global Systemically Important Insurers (GSIIs)</strong></td>
<td>• Global Systemically Important Insurers as listed by the Financial Stability Board, and their regulated insurance and reinsurance subsidiaries.</td>
</tr>
<tr>
<td><strong>Undertakings for Collective Investment in Transferable Securities (UCITS)</strong></td>
<td>• Undertaking with sole object of collective investment in transferable securities or in other liquid financial assets of capital raised from the public.</td>
</tr>
<tr>
<td><strong>Management Companies</strong></td>
<td>• A company, the regular business of which is collective portfolio management i.e. the management of UCITS in the form of common funds, or of investment companies.</td>
</tr>
<tr>
<td><strong>Alternative Investment Funds (AIFs)</strong></td>
<td>• A collective investment undertaking that (i) raises capital from several investors; (ii) seeks to invest the capital in accordance with a defined investment policy for the benefit of those investors; and (iii) is not a fund requiring authorisation under the UCITS regime.</td>
</tr>
<tr>
<td><strong>Alternative Investment Fund Managers (AIFM)</strong></td>
<td>• Provide both portfolio management and risk management services to one or more AIFs as its regular business.</td>
</tr>
<tr>
<td><strong>Financial HoldCos</strong></td>
<td>• A financial institution (which is not a Mixed Financial HoldCo) with subsidiaries which are either exclusively or mainly (i) credit institutions; (ii) investment firms; or (iii) financial institutions, and which also has at least one subsidiary undertaking which is (a) a credit institution or (b) an investment firm.</td>
</tr>
<tr>
<td><strong>Mixed Financial HoldCos</strong></td>
<td>• An undertaking which is not a credit institution, insurance undertaking or investment firm, which fulfils two key criteria:</td>
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<tr>
<td></td>
<td>(i) it has at least one subsidiary undertaking which is (a) a credit institution, (b) an insurance undertaking, or (c) an investment firm; and</td>
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<tr>
<td></td>
<td>(ii) it, together with its subsidiary undertakings, constitutes a financial conglomerate.</td>
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<tr>
<td><strong>Structured Finance Vehicles (SFVs)</strong></td>
<td>• Structured Finance Vehicles are either a securitisation undertaking or a covered bond vehicle.</td>
</tr>
<tr>
<td></td>
<td>• Single purpose entities which tend to hold only financial assets.</td>
</tr>
</tbody>
</table>

Notes:

1 Aegon N.V.; Allianz SE; American International Group, Inc.; Aviva plc.; AXA S.A.; MetLife, Inc.; Ping An Insurance (Group) Company of China, Ltd.; Prudential Financial, Inc.; Prudential plc (correct as of 2016 FSB list)
Our Commercial Banking proposition

Below is a summary of our Commercial Banking proposition relevant to you, showing the products we plan to offer through the ring-fenced and non-ring-fenced banks.

<table>
<thead>
<tr>
<th>Lloyds Banking Group Sub-Group</th>
<th>Ring-Fenced Sub-Group</th>
<th>Non-Ring-Fenced Sub-Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyds Banking Group legal entity</td>
<td>Lloyds Bank plc &amp; Bank of Scotland plc</td>
<td>Lloyds Bank Corporate Markets plc</td>
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<tr>
<td></td>
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</tr>
<tr>
<td>Client Type</td>
<td>Non-RFI</td>
<td>RFI</td>
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<tr>
<td>Markets Traded Products</td>
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<tr>
<td>FX derivatives</td>
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<tr>
<td>Spot FX</td>
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<tr>
<td>Rates derivatives</td>
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<tr>
<td>Commodities derivatives</td>
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<tr>
<td>Repo</td>
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<tr>
<td>CPs &amp; CDs</td>
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<tr>
<td>Deposits²</td>
<td></td>
<td></td>
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<tr>
<td>Credit derivatives</td>
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<tr>
<td>Markets Financing Products</td>
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<tr>
<td>Bonds⁴</td>
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<tr>
<td>Asset Securitisation</td>
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<tr>
<td>Conduit Securitisation</td>
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<tr>
<td>Warehousing and bank b/s</td>
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<td>Term Securitisation⁵</td>
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<tr>
<td>Strategic Debt Finance</td>
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<td>Loan Markets</td>
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<tr>
<td>Lending Products</td>
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<tr>
<td>Variable Rate Loans</td>
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<td>Fixed Rate Loans</td>
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<tr>
<td>Revolving Credit Facilities</td>
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<tr>
<td>Transaction Banking</td>
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<tr>
<td>Cash Management &amp; Payments</td>
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<tr>
<td>Asset Finance &amp; Asset Based Lending</td>
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<td>Invoice Finance</td>
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<tr>
<td>Trade Finance &amp; Supply Chain Finance³</td>
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<tr>
<td>Trade Services⁵</td>
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<tr>
<td>Consumer Finance</td>
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<tr>
<td>Corporate Charge Cards</td>
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</tbody>
</table>

Key:
- Product not booked
- Product booked to Lloyds Bank plc / Bank of Scotland plc
- Product booked to Lloyds Bank plc / Bank of Scotland plc under available exceptions
- Product booked to Lloyds Bank Corporate Markets plc or its branches and subsidiaries

Notes:
- Product offering remains subject to review. Under the ring-fencing rules the RFB (Lloyds Bank plc) can continue to transact all necessary business lines, including repo, CP & CD, for its own risk and liquidity management. ¹This includes certain FX derivatives only. ²This comprises money market deposits and accounts. ³Viability of type of conduit securitisation proposition remains under consideration. ⁴Own group issuance permitted. ⁵Trade products may be booked to RFB (Lloyds Bank plc) or NRFB (Lloyds Bank Corporate Markets plc or its subsidiaries) based on the application of exceptions and exemptions. There is no optionality, booking location is based on perimeter. ⁶Includes Jersey branch/Lloyds Bank International Ltd (LBIL) Commercial products only.

Section 2: The contract transfer process

The Ring-Fencing Transfer Scheme (RFTS) - The process of transferring contracts

The RFTS is effected through the High Court of England and Wales. The process is set out in the ring-fencing legislation (Part VII of the FSMA) and facilitates the transfer of large volumes of eligible agreements between a ring-fenced entity and a non-ring-fenced entity to enable banks to comply with ring-fencing requirements. For Lloyds Banking Group it is the most practical way of transferring large volumes of certain client agreements. Some agreements are not suitable for transfer via the RFTS (please see below on ‘Agreements not included in the RFTS’) and will instead be transferred to Lloyds Bank Corporate Markets plc through a process known as novation.

The transfer of agreements to Lloyds Bank Corporate Markets plc via the RFTS requires UK High Court approval. The Court will only sanction the RFTS if it is satisfied that it is appropriate, fair to clients and meets the legal requirements. The Court will consider formal written objections to the RFTS raised by persons who allege they could be adversely affected.
The transfer of products and facilities requires changes to underlying agreements to ensure that:

- The Lloyds Banking Group entity named in the agreements is amended to refer to the entity that will be the new counterparty to those contracts or agreements following the transfer – i.e. Lloyds Bank Corporate Markets plc.
- Any security for customer obligations that is currently held by or on behalf of a Lloyds Banking Group entity is available to Lloyds Bank Corporate Markets plc following the transfer.
- The agreement remains enforceable and continues to function as originally intended, following the transfer to Lloyds Bank Corporate Markets plc.

Section 7 of this guide outlines the key potential impacts on our clients of the transfer of business to Lloyds Bank Corporate Markets plc as a result of our planned approach to ring-fencing.

**Details of the RFTS**

Subject to the Court’s approval we will use the RFTS to transfer large volumes of client agreements from the ring-fenced banks to Lloyds Bank Corporate Markets plc, without the need to seek formal consent from each client.

Further details of the terms of the RFTS are set out in the scheme document (the “Scheme Document”) that is available to view from our Group website at lloydsbankinggroup.com/ringfencing/keydocuments or by contacting your Relationship Manager, together with a summary of the key terms of that document.

Our approach to the RFTS and any associated effects on our clients has been considered in an independent review, carried out by an external expert the “Skilled Person”, who has been approved by the Prudential Regulation Authority, in consultation with the Financial Conduct Authority. The Skilled Person’s full review (the “Scheme Report”) together with a summary is available to view from our Group website at lloydsbankinggroup.com/ringfencing/keydocuments or by contacting your Relationship Manager.

The first Court hearing for the RFTS was held on 4 December 2017, when the Court approved our application for the Court process to begin, including our overall plan for the communications we need to make. Final approval from the Court for the RFTS will be sought at the Sanction hearing which is expected to take place on 27 March 2018. If this date changes, and when the outcome of each hearing is known we will publish updates on our Group website at lloydsbankinggroup.com/ringfencing

This Guide is part of the formal communication about the RFTS process and provides clients with detailed information about the RFTS.

**Agreements not included in the RFTS**

The RFTS Court process will be used wherever possible to transfer large volumes of agreements to Lloyds Bank Corporate Markets plc. However, some agreements are not appropriate for transfer through the RFTS and instead will be transferred to Lloyds Bank Corporate Markets plc individually, in a process known as contract-specific novation, which requires individual client consent to transfer. Contract-specific novation largely applies to contracts governed by the laws of jurisdictions outside the UK, but there could be other exceptions which your Relationship Manager will speak to you about if your business is affected.
## Differences between RFTS process and contract-specific novation

<table>
<thead>
<tr>
<th>All products</th>
<th>RFTS Process</th>
<th>Contract-specific novation</th>
</tr>
</thead>
</table>
| Summary      | ▪ Planned to be used for all eligible UK law<sup>1</sup> agreements and eligible foreign law security agreements  
▪ Can be used to transfer large volumes of agreements at once | ▪ Required for Non-UK law agreements other than foreign law security agreements that are capable of being transferred under the RFTS  
▪ Contract-specific novation on a case-by-case basis |
| Operational Implications | ▪ Trade IDs will change for all derivatives and potentially FX  
▪ There should be no requirement for additional Bank KYC<sup>2</sup> due diligence during the client on-boarding process  
▪ Agreements are replicated and transferred. No signature will be required | ▪ Trade IDs will change for all derivatives and potentially FX  
▪ Re-booking new agreements will be considered on a case-by-case basis and may require further Bank KYC on the new entity  
▪ Follows established novation processes |
| Timeline | The transfer of agreements is intended to take place over a single weekend | Contract-specific novations are planned to be completed at the same time as RFTS transfers |
| European Market Infrastructure Regulation | The transfer of agreements should not be treated as a novation for the purposes of the European Market Infrastructure Regulation (EMIR) for clearing and margining purposes, although it will for reporting purposes | The transfer of agreements will be treated as novation. Where a trade was previously exempt from EMIR the new regulations will now apply, which may result in new clearing and margining requirements |
| Accounting | The transfer of agreements may be treated as a novation for accounting purposes, depending on the accounting standards used | The transfer of agreements may be treated as a novation for accounting purposes, depending on the accounting standards used |

### Notes:

<sup>1</sup> In this context, UK law includes English, Welsh and Scottish legislation

<sup>2</sup> KYC is the acronym for “Know Your Customer”, a standard compliance requirement used by financial institutions

Updates to the timing of the transfer of products will be communicated on our Group website lloydsbankinggroup.com/ringfencing

### Key dates for implementing our ring-fencing plans

The ring-fencing legislation comes fully into force on 1 January 2019. Therefore along with other large UK banks, we’re making changes to comply with the ring-fencing legislation now and will need to complete them by 1 January 2019.

The first hearing for the formal RFTS Court process was on 4 December 2017 in which the Court approved our approach to formal communications regarding the RFTS although preliminary hearings were held on 26 May 2017 (for general directions on the approach banks should adopt around communications) and on 25 September 2017 (for preliminary directions on some of the communications we need to make for the RFTS). Subject to the approval of the Court in March 2018, the process is expected to conclude with the transfer of agreements in May 2018. The Court dates for this process are expected to be as follows:

- Between the Directions hearing on 4 December 2017 and 28 February 2018: Broadly, the period during which anyone wishing to object to, or otherwise make their views known about the RFTS can do so. For details see Section 3 below or our Group website at lloydsbankinggroup.com/ringfencing/courtprocess.

- 27 March 2018: Sanction Hearing for the Court to consider whether to sanction the RFTS i.e. to allow the RFTS to become effective and transfer the relevant customer agreements and related business. Clients and other persons may put forward their objections to the RFTS in person before the Court at this hearing, but in order to do so need to have filed written representations with the Court outlining those objections beforehand, and served those representations on Lloyds Banking Group and on the PRA. For details see our Group website at lloydsbankinggroup.com/ringfencing/courtprocess.

As our plans for the RFTS progress we will update our Group website at lloydsbankinggroup.com/ringfencing with the latest position. Subject to the approval of the Court, below is the expected timeline for the implementation of our ring-fencing reforms.
Lloyds Banking Group ring-fencing timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>S&amp;P and Fitch publish preliminary credit ratings of Lloyds Bank Corporate Markets plc</td>
</tr>
<tr>
<td>2017</td>
<td>Lloyds Banking Group engages clients to provide an overview on ring-fencing and our planned response</td>
</tr>
<tr>
<td>Nov 2017</td>
<td>Moody’s published provisional credit ratings of Lloyds Bank Corporate Markets plc by PRA with restrictions</td>
</tr>
<tr>
<td>Dec 2017 to Feb 2018</td>
<td>Period for clients to object to the transfer of agreements through RFTS</td>
</tr>
<tr>
<td>Late Q2 2018</td>
<td>Target date for transfer of agreements to Lloyds Bank Corporate Markets plc</td>
</tr>
<tr>
<td>Late Q2 2018</td>
<td>Fully functional separate banks and formal public credit ratings</td>
</tr>
<tr>
<td>Jan 2019</td>
<td>Ring-fencing reforms in place</td>
</tr>
</tbody>
</table>

2017 2018
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
Q1-Q2 2017 Lloyds Banking Group engages clients to provide an overview on ring-fencing and our planned response
Q3-Q4 2017 Lloyds Banking Group conducts follow up discussions to explain our proposed approach to transferring impacted agreements and any changes to our offering
Dec 2017 Lloyds Banking Group sends clients impacted by a product transfer or change a letter to advise of the proposed RFTS and provide details of how to object
Q1 2018 Lloyds Banking Group sends its clients a list of current Trade IDs which will be subject to transfer
Late Q2 2018 Lloyds Banking Group sends its clients a list of new Trade IDs post transfer

There is a grace period granted for transactions which mature prior to 1 January 2021 (see the ‘Grandfathering Options’ section of this guide).

Transfer date
Subject to the Court approving the transfer, the point where business transfers to Lloyds Bank Corporate Markets plc (the “Effective Date”) is currently expected to be 28 May 2018. Any changes to this date will be communicated on our Group website at lloydsbankinggroup.com/ringfencing so please do check this regularly. Please note in the legal documents for technical reasons the Effective Date is sometimes referred to as the Relevant Date.

Please note, before the transfer takes place, you will be provided with the information you will require to enable the transfer process to take place. In the case of derivative transactions this will include notice of all the trade IDs which will be subject to transfer.

Keeping up to date
Our Group website lloydsbankinggroup.com/ringfencing will be kept up to date as our plans progress, it includes:

- The dates and outcomes of Court Hearings. In particular the outcome of the Sanction Hearing will be published here
- Should any additional steps be required in the Court process we will explain what these are and provide dates and relevant details
- Additional information you need to know before the transfer takes effect
- The date on which the RFTS will become effective, and the majority of transfers will take place (the “Effective Date”) will be confirmed.

Section 3: The objections process

The Court will only sanction (approve) the RFTS if it is satisfied that the changes are appropriate, fair to clients and meet the legal requirements. The Court will consider objections to the RFTS raised by persons who allege they could be adversely affected.

How to object to the RFTS
If you wish to allege that you could be adversely affected by the RFTS, the process to raise an objection to the Court is available on our Group website lloydsbankinggroup.com/ringfencing/courtprocess

It is also available as a printed document in any of our branches or by contacting your usual point of contact. Please note the Court may restrict the way in which it hears your objection if made after 28 February 2018, so if you do wish to raise one it may be advantageous to do so before then.
Section 4: Our principles and undertakings when designing our ring-fencing plans

Principles

As we’ve considered implementing our ring-fencing plans, we’ve made every effort (as far as possible) to follow certain principles and aim to minimise disruption to affected clients. However in some instances, we may not be able to meet all of these principles due to the effect of the ring-fencing requirements in those circumstances.

- All clients will be treated fairly. Clients with certain contractual rights and obligations will not be treated preferentially over other clients with the same contractual rights and obligations.
- There will be no change to sort-codes or account numbers as a result of the RFTS.
- We won’t change existing contractual rights and obligations, except where there is a requirement to do so in order to make the transfer under the RFTS effective and meet the requirements of ring-fencing legislation.
- We will not seek to gain a commercial advantage from the RFTS. It will only be used to effect a transfer of your products or services from Lloyds Bank plc to Lloyds Bank Corporate Markets plc, so that we comply with ring-fencing legislation.
- Certain contractual rights (see below) that would otherwise be overridden by the RFTS will be preserved so that they remain available for customers to exercise, including but not limited to Credit Downgrade Triggers, Additional Termination Events and Credit Event upon Merger provisions (CEUMs) and particular fund specific termination provisions in ISDA Master Agreements (although it is Lloyds Bank Corporate Markets plc’s belief that CEUMs will not be triggered). Any contractual requirements for the replacement of Lloyds Bank Corporate Markets plc as liquidity facility provider (where applicable).
- We will pay certain costs incurred as a direct result of the RFTS where those costs are required to make the transfer under the RFTS effective and/or to meet the requirements of ring-fencing legislation (e.g. applicable registration fees, agency change fees, trade booking entry fees). These costs are distinct from discretionary costs such as legal costs or administration costs deemed to arise on a business as usual basis, which are not covered. Please refer to paragraph 20 (Fees) of the Scheme Document for more detail, including in particular the limitations and conditions to this undertaking.
- If the Court agrees to sanction the RFTS in its current form, clients will need to fulfil any contractual obligations arising from the transfer effected under the RFTS, and the implementation of ring-fencing (including, for example, collateral posting requirements).
- The Grandfathering option, which is set out in section 5, will apply to all eligible derivative transactions (subject to the exceptions detailed in Section 5).

Undertakings given by Lloyds Banking Group entities

Lloyds Banking Group entities are providing the following contractual undertakings in the RFTS (with further detail set out in the Scheme Document and summarised in the summary of the Scheme Document, both of which are available on our Group website lloydsbankinggroup.com/ringfencing/keydocuments or by writing to your Relationship Manager):

Undertakings given by Lloyds Bank Corporate Markets plc

- Not to exercise certain specified rights that Lloyds Bank Corporate Markets plc may have to recalculate the principal owed under certain lending facilities, where the interest rate is linked to the Retail Prices Index, to the extent that such recalculation rights are triggered solely by reason of the RFTS.
- For a period of six months from the Effective Date, to provide KYC information on Lloyds Bank Corporate Markets plc reasonably requested by clients. This undertaking is not intended to replace information we would supply, and intend to continue to supply, under normal business practice.

Undertakings given by Lloyds Bank plc

- To cover certain costs incurred by counterparties under a contractual or legal obligation (being those necessarily triggered by the RFTS, such as registration fees, agency fees and trade booking entry fees), for a period of up to seven months following the date the transfer of the relevant trade or transaction becomes effective under the RFTS, and subject to certain evidential requirements and other limitations.

Undertakings given by Lloyds Bank plc and Lloyds Bank Corporate Markets plc

- To the extent that any rights of Lloyds Bank plc or Lloyds Bank Corporate Markets plc have to recover amounts from guarantors under certain Omnibus Guarantee and Set-off Agreements would, as a result of the duplication of such agreement under the RFTS, exceed monetary limits previously agreed, they will only exercise such rights to the extent they existed previously.
To not seek recovery of any fees from you in respect of (i) any agency or security agency fee that you have agreed to pay to Lloyds Bank plc in existing agreements, to the extent that such fees would not have been payable had there not been shared security arrangements and (ii) any agency or security agency fee which is payable by us in respect of shared security arrangement which may be covered by an indemnity from you in existing agreements.

**Overriding and Restriction of rights and requirements**

The RFTS will override, where they currently exist, rights of counterparties or other contractual requirements where they operate such that they would prevent the transfer under the RFTS, including:

- Consent or accession conditions whereby ordinarily the approval of other parties would be required, or notice would need to be given to allow the transfer. In such case the counterparty would lose its right to terminate an agreement in case of breach of consent/accession conditions.
- In relation to linked products (e.g. where it is a condition of a loan that the client enters into a derivative transaction with the same lender), where only one product is required to be transferred to Lloyds Bank Corporate Markets plc for ring-fencing compliance, any restrictions and limitations preventing the linked products being transferred separately or held with different counterparties will be overridden.
- Minimum credit rating criteria / requirements where the credit rating of Lloyds Bank Corporate Markets plc is below the required level.
- Where a hedge counterparty role is transferred any default or termination event triggered as a result of non-compliance with any transfer restrictions under the hedging agreement or other transaction documents will be overridden.
- Requirements for a counterparty to provide a legal opinion to the trustee in securitisation transactions that confirm the validity of the transferee’s obligation and tax status.
- Confidentiality requirements owed by Lloyds Bank plc to a customer.
- In addition, in relation to MarketWire, the RFTS will provide that where your consent or acknowledgement is required in order to enable MarketWire to reflect the transfer under the RFTS such consent or acknowledgement will be deemed to have been given.

Further details are available in the Scheme Document and the Skilled Persons Scheme Report.

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### Transferring derivative transactions

Subject to the Grandfathering optionality described below we intend to transfer all derivative transactions held directly by Financial Institutions clients (i.e. not including ‘cleared trades’) that are outstanding/live on the Effective Date, to Lloyds Bank Corporate Markets plc. The only exceptions to this approach will be (i) if Lloyds Bank plc intend to retain any trades for own hedging purposes as permitted by the ring-fencing legislation, or (ii) if the transfer would result in Lloyds Bank Corporate Markets plc being in breach of its regulatory ‘large exposures limits’. In either case, if you are affected, you will have been or will be contacted separately.

**Derivative transactions and ‘grandfathering’**

‘Grandfathering’ is an exemption within the ring-fencing legislation, which allows certain derivative transactions that would otherwise have to transfer to a non-ring-fenced bank under the ring-fencing rules, to remain in a ring-fenced bank. For Financial Institution clients, we are extending our approach to grandfathering to include derivative transactions which are permitted to remain in a ring-fenced bank under the legislation.

Derivative transactions will be eligible for grandfathering (subject to your optionality below) if they fulfil the following criteria:

- Entered into before, and live at, the Effective Date (currently expected to be 28 May 2018), and
- Set to expire before 1 January 2021

**‘Grandfathering’ options**

Our default approach for Financial Institution clients is not to grandfather any derivative transactions, and to transfer all derivative transactions (including transactions that are permitted to remain in the ring-fenced bank) to Lloyds Bank Corporate Markets plc, subject to the two exceptions for own hedging purposes and large exposures described above. This will minimise additional collateral required following the transfer pursuant to the RFTS as a result of split netting sets between the ring-fenced bank and the non-ring-fenced bank.
However, we are offering our Financial Institution clients a choice regarding the way in which grandfathering applies to their derivative transactions. If you wish to grandfather your eligible derivative transactions such that they do not transfer to Lloyds Bank Corporate Markets plc under the RFTS, and instead remain in Lloyds Bank plc, you will need to ensure you complete and return your grandfathering declaration form to FIRingFencing@lloydsbanking.com by 5.00 pm (London time) on 28 February 2018.

Note: The grandfathering provision is applied at a legal entity level and not on a trade by trade basis. If you wish to opt-out of the default position described above, you must do so for all relevant derivative transactions that your legal entity holds at the Effective Date (i.e. including all trades transacted prior to the Effective Date) with Lloyds Bank plc. Even if you do not currently have any derivative transactions that can be grandfathered, any future derivative transactions you may book prior to the Effective Date will be subject to the same grandfathering provisions and optionality timelines. Once your election is made, it cannot be changed.

Master Agreements
The RFTS will duplicate certain of the following master agreements (each a “Master Agreement”):

- ISDA Master Agreements
- Treasury Master Agreements
- Global Master Repurchase Agreements
- Global Master Securities Lending Agreements

If one of these Master Agreements is duplicated it means that:

- the original Master Agreement will remain in place between Lloyds Bank plc and the client. There will be no change to the original agreement, and
- the RFTS will create a duplicate of that Master Agreement between Lloyds Bank Corporate Markets plc and the client, which will be substantively identical to the original Master Agreement (with the key difference being the identity of the Lloyds Banking Group counterparty, which will be Lloyds Bank Corporate Markets plc). Clients can then use this new duplicated version of the Master Agreement to enter into transactions with Lloyds Bank Corporate Markets plc from the Effective Date.

Certain Master Agreements that will be duplicated relate to derivative transactions that will be transferred under the RFTS. Duplicating these Master Agreements will be necessary for the smooth transfer of derivative transactions which incorporate their terms.

Currently unutilised Master Agreements
Other Master Agreements will be duplicated where the facility to trade has been established but it is not currently used for any derivative transactions that are transferring via the RFTS. Although there are no associated derivative transactions to be transferred, we will still duplicate the majority of these Master Agreements in Lloyds Bank Corporate Markets plc to ensure that Lloyds Banking Group remains in a position to meet your needs in the future, without first individually negotiating a new Master Agreement with Lloyds Bank Corporate Markets plc.

Credit Support Annexes (CSAs)
Where a client has an ISDA Master Agreement that is being duplicated and the ISDA Master Agreement includes a Credit Support Annex (CSA) the CSA will also be duplicated via the RFTS.

Other duplicated agreements
Where an ISDA Master Agreement is being duplicated the RFTS will also duplicate other, related agreements for that ISDA Master Agreement, including Master Give-Up Agreements (but except for the Designation Notices underlying any Master Give-Up Agreements), Cleared Derivatives Execution Agreements and other documents that are ancillary to the ISDA Master Agreements. The effect of duplicating these related agreements will be the same as the effect of duplicating the ISDA Master Agreements themselves (i.e. the original agreement will remain in place and fully effective between Lloyds Bank plc and the client, and a new duplicated version of that agreement will be deemed to exist on the same terms between Lloyds Bank Corporate Markets plc and the client).

In addition, Omnibus Guarantee and Set-off Agreements (OGSAs) which relate to a transferring asset or to both a product forming part of the transferring business and an excluded asset owed or which may become owed to Lloyds Bank plc will be duplicated, except for certain provisions where it is more practical for Lloyds Bank plc to hold such provisions on trust for Lloyds Bank plc and Lloyds Bank Corporate Markets plc. An OGSFA provides a guarantee, indemnity and set-off rights to Lloyds Bank plc, including additional account consolidation and set-off rights against other companies in your corporate group.
The effect of duplicating the OGSAs is that Lloyds Bank Corporate Markets plc will have the same arrangements with the counterparty (and associated companies) following the transfer. To the extent that there is an agreed recovery limit in place, any aggregate claim by Lloyds Bank plc and Lloyds Bank Corporate Markets plc will not exceed this limit.

The RFTS will also be used to transfer or duplicate the following additional documentation where applicable:

- Reservation of rights letters
- Terms of Business and Terms and Conditions active at the transaction date (to the extent relevant to the applicable transaction)
- Amendment and reinstatement documentation
- Supplemental Agreements
- Fee letters
- Restructuring agreements
- Client classification letters
- Legal opinions
- Non-disclosure agreements
- Mandates and suitability assessments
- Notices issued pursuant to the Securities Financing Transactions Regulation in respect of title transfer collateral arrangements
- Notices, side letters or other documentation entered into in compliance with applicable regulatory requirements
- Regulatory status and other questionnaires
- Representation letters
- Delegated reporting agreements

**Guarantees and security for duplicated agreements**

Except for CSAs and OGSAs (which are addressed above), any guarantee or security that a customer has provided to Lloyds Bank plc in relation to an agreement (including an ISDA Master Agreement) that will be duplicated by the RFTS will be held by Lloyds Bank plc on trust to cover that customer’s obligations under both the original agreement and the duplicated agreement.

**Long Form Confirmations**

Where a derivative is documented by a long-form confirmation (“LFC”), the LFC will not be duplicated. If the relevant derivative is transferring to Lloyds Bank Corporate Markets plc, then the LFC will transfer to Lloyds Bank Corporate Markets plc.

**Further Details**

Further details of agreements being transferred are set out in the Scheme Document and the Summary of the Scheme Document, which are available to view at our Group website at lloydsbankinggroup.com/ringfencing/keydocuments or by contacting your Relationship Manager.

**Loans, liquidity facilities and trade finance**

The following facilities, which are governed by the laws of England, Wales, Scotland or Northern Ireland, will transfer to Lloyds Bank Corporate Markets plc under the RFTS. Lloyds Bank Corporate Markets plc will then become the lender for those facilities and may also take on certain other roles under the terms of the relevant agreements:

1. Loan facilities, liquidity facilities (the latter of which are provided to special purpose vehicles in securitisations which are “Structured Finance Vehicles”, as defined within the ‘RFI classifications explained’ section) and certain sub participations entered into in connection with such facilities that:
   - are still live / outstanding (even if undrawn, and even if the formal maturity date has passed (e.g because of borrower default) as at the date the RFTS becomes effective; and
   - involve an exposure to an RFI.
2. Loan facilities, other than those that fall into the category above that:

- have a contractual maturity date that falls on or after 1 January 2021; and
- have an interest rate linked to an index, such that Lloyds Bank plc would be prohibited from holding such loan facilities. The loan facilities transferring through the Scheme excludes (a) certain other sub-participation arrangements and (b) certain other syndicated arrangements where Lloyds Bank plc is a security agent. You will have been contacted separately if you are party to one of these arrangements.

3. Trade financing transactions involving the issue of guarantees and letters of credit and related counter-indemnity and reimbursement obligations that:

- are still live/outstanding as of 31 December 2018; and
- involve an exposure to an RFI; and
- it is not possible to apply the trade finance exemption set out in the legislation

However, please note that the RFTS will not transfer certain transactions that fall within the categories described above, where those transactions mature during the period from which the RFTS becomes effective (expected to be 28 May 2018) and 1 January 2019 if the transfer would result in Lloyds Bank Corporate Markets plc being in breach of its regulatory ‘large exposures limits’. If you are affected, you will have been or will be contacted separately.

Section 6: Transfer of security and collateral

Transfer of Security

This section summarises the main considerations in respect of transfer of security to Lloyds Bank Corporate Markets plc.

<table>
<thead>
<tr>
<th>Description</th>
<th>Consideration</th>
</tr>
</thead>
</table>
| UK Law and other recognising jurisdictions | - Relates to security governed by the laws of England and Wales, Scotland or Northern Ireland (“UK Law”), or the laws of any jurisdictions which recognise the transfer of security under the RFTS  
- Where security arrangements governed by such laws secure UK law agreements, the security arrangements, will be transferred via the RFTS (unless the circumstances set out below in this table in relation to shared security apply) |
| Foreign Law | - Relates to security governed by laws other than UK Law that do not recognise the transfer of security documents under the RFTS  
- Where security is neither governed by UK Law nor by the laws of jurisdictions which will recognise the RFTS, it is anticipated that in some cases such security will be manually novated or transferred (outside the RFTS) from Lloyds Bank plc to Lloyds Bank Corporate Markets plc and re-registered (if necessary) in the relevant jurisdiction  
- Where a Foreign Law agreement is linked to UK Law security, it is anticipated that the Foreign Law agreement will be manually novated or transferred (or equivalent) |

Notes: (1) This approach may vary on a case-by-case basis;
Security required to cover products provided by two Lloyds Banking Group entities and existing agreements that are duplicated

- After the implementation of our ring-fencing plans, a shared security trust structure is needed in certain circumstances. It is needed where one or more linked products is transferring to Lloyds Bank Corporate Markets plc but one more of the related linked products remains with Lloyds Bank plc. It is also needed where a security is provided in relation to an ISDA Master Agreement or other existing agreement that is being duplicated pursuant to the RFTS such that the customer potentially has transactions or other obligations under the existing agreement between Lloyds Bank plc and the customer and transactions or other obligations under the duplicated agreement between Lloyds Bank Corporate Markets plc and the customer. In such circumstances, a shared security trust structure allows both Lloyds Bank plc and Lloyds Bank Corporate Markets plc to share in the security.

- This arrangement will allow for the secured property to be security for multiple Products, at least one of which will be held by Lloyds Bank plc and at least one of which will be held by Lloyds Bank Corporate Markets plc. It will also allow the secured property to be security for the transactions entered into by the customer under the existing agreement with Lloyds Bank plc and to be security for the transactions entered into by the customer under the corresponding duplicated agreement with Lloyds Bank Corporate Markets plc. The shared security trust structure will only apply where a trust structure does not already exist in relation to your products or existing agreement that allows security to be shared.

- Where a trust structure exists in relation to your products and/or an existing agreement that allows for the security to be shared (such as many syndicated arrangements) the effect of the RFTS will be to add Lloyds Bank Corporate Markets plc to the existing inter-creditor arrangements as a new creditor.

- For instances where there is no existing trust structure that allows security sharing (such as in many bilateral agreements), a shared security trust (the “Shared Security Trust”) will be created under the RFTS between Lloyds Bank plc and Lloyds Bank Corporate Markets plc. A separate intercreditor agreement (the “Intercreditor Agreement”) (between Lloyds Bank plc and Lloyds Bank Corporate Markets plc) will be entered into in respect of that Shared Security Trust, but you do not need to be a party to that agreement. However a summary of the Intercreditor Agreement will be available to you.

- In respect of foreign law security a foreign law security trust (or equivalent concept) will be created. We will contact you in the event that actions are required on your part to ensure security remains effective.

- Under the Shared Security Trust (or foreign law security trust) structure, you will experience a loss of exposure set-off rights. Otherwise your rights / obligations under the relevant banking products will largely remain unchanged. The security arrangement will essentially remain the same other than the fact that an additional creditor (i.e. Lloyds Bank Corporate Markets plc) will be included in the arrangement, will have rights in respect of the security in question, and Lloyds Bank plc will be the security trustee on behalf of Lloyds Bank plc and Lloyds Bank Corporate Markets plc.

- We are implementing policies relating to the management of shared security which will minimise the degree to which one bank may otherwise be incentivised to accelerate or close out a product or close out an existing agreement or the relevant duplicated agreement earlier than they would have done prior to the transfer or duplication, for your protection.

- Where the security granted is an ‘all monies’ security in favour of Lloyds Bank plc and/or Bank of Scotland plc, in a situation where:
  a) one or more, but not all, products / transactions that are secured under that security are transferred to Lloyds Bank Corporate Markets plc and/or where the security relates to an existing agreement that is being duplicated pursuant to the RFTS, the “all monies” security will remain in place in favour of Lloyds Bank plc and/or Bank of Scotland plc (where relevant) as before. It will also secure the specific products / transactions that are transferred to Lloyds Bank Corporate Markets plc and, where the security relates to an existing agreement/duplicated agreement, the new transactions entered with Lloyds Bank Corporate Markets plc under the duplicated agreement, but it will not be available to Lloyds Bank Corporate Markets plc to secure any new transactions or financings other than those under the duplicated agreement; and
  b) all products / transactions that are secured under that security are transferred to Lloyds Bank Corporate Markets plc (and there is no existing agreement that is duplicated), the “all monies” security will not remain in place in favour of Lloyds Bank plc and/or Bank of Scotland plc. It will secure the specific products / transactions that are transferred to Lloyds Bank Corporate Markets plc but it will not be available to Lloyds Bank Corporate Markets plc to secure new transactions or financings. Where the security covering the products/transactions being wholly transferred to Lloyds Bank Corporate Markets plc also relates to an existing agreement that is being duplicated, the security will also extend to all new transactions entered into between Lloyds Bank plc and/or Bank of Scotland plc and the customer under the existing agreement and all new transactions entered into between Lloyds Bank Corporate Markets plc and the customer under the duplicated agreement, but would not extend to any new transactions or financings entered into by the customer with Lloyds Bank plc and/or Bank of Scotland plc or Lloyds Bank Corporate Markets plc that are not under the existing agreement or duplicated agreement (as applicable).

A copy of a document summarising the key principles of the Intercreditor Agreement can be found at lloydsbankinggroup.com/ringfencing/keydocuments, and you can also request a hard copy of that summary from your Relationship Manager.
Transfer of collateral

This section explains how the full title transfer of collateral held under ISDA Credit Support Annexes (CSAs) is treated for the purpose of the RFTS. As described above where an ISDA Master Agreement is duplicated by the RFTS so too is the related CSA (unless you have been informed otherwise).

<table>
<thead>
<tr>
<th>Description</th>
<th>Consideration</th>
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</thead>
<tbody>
<tr>
<td>Lloyds Bank plc holding collateral</td>
<td>If collateral is held by Lloyds Bank plc under a CSA with a counterparty (i.e. Lloyds Bank plc is net “in the money” in respect of the derivative transactions to which the CSA relates) at the valuation date immediately prior to the Effective Date, and all of the derivative transactions relating to that CSA will be transferred over to Lloyds Bank Corporate Markets plc, then all of the collateral will be transferred to Lloyds Bank Corporate Markets plc. Any such collateral will then be held by Lloyds Bank Corporate Markets plc under the duplicated CSA. If the derivative transactions covered by the CSA are to be split between Lloyds Bank plc and Lloyds Bank Corporate Markets plc, then a pro-rata share of each item of posted collateral held by Lloyds Bank plc under such CSA will be transferred to Lloyds Bank Corporate Markets plc and deemed to be held pursuant to the duplicated CSA, subject to any threshold amount, minimum transfer amount and rounding amounts if applicable. The total amount of collateral to be transferred to Lloyds Bank Corporate Markets plc is calculated as at the valuation date immediately preceding the Effective Date, based on the proportion that the exposure of Lloyds Bank Corporate Markets plc under the derivative transactions transferred to it by Lloyds Bank plc bears to the exposure Lloyds Bank plc has in respect of all derivative transactions with such counterparty and to which such CSA relates prior to the transfer. We will contact you, if needed, regarding operational arrangements allowing the posting of additional collateral on or following the Effective Date using new settlement instructions/nostro accounts.</td>
</tr>
<tr>
<td>Counterparty holding collateral</td>
<td>If collateral has been posted by Lloyds Bank plc under a CSA at the valuation date immediately prior to the Effective Date (i.e. Lloyds Bank plc is net “out of the money” in respect of the derivative transactions to which the CSA relates), and all of the derivative transactions under that CSA will be transferred over to Lloyds Bank Corporate Markets plc, then all of that collateral will be deemed to have been posted by Lloyds Bank Corporate Markets plc (under the terms of the duplicated CSA). If the derivative transactions covered by the CSA are to be split between Lloyds Bank plc and Lloyds Bank Corporate Markets plc, then a pro-rata share of each item of posted collateral held by the counterparty under such CSA will be deemed to have been transferred by Lloyds Bank Corporate Markets plc and received and held by the counterparty pursuant to the duplicated CSA, subject to any threshold amount, minimum transfer amount and rounding amounts if applicable. The total amount of collateral deemed to have been transferred by Lloyds Bank Corporate Markets plc is calculated as at the valuation date immediately preceding the Effective Date, based on the proportion that the exposure of Lloyds Bank Corporate Markets plc under the derivative transactions transferred to it by Lloyds Bank plc bears to the exposure Lloyds Bank plc has in respect of all derivative transactions with such counterparty and to which such CSA relates prior to the transfer. Ongoing collateral management requirements for Lloyds Bank plc / Lloyds Bank Corporate Markets plc and clients will continue on a “business as usual basis” as part of the usual collateral management process.</td>
</tr>
</tbody>
</table>

Section 7: Effects of transfer

This guide has general information on ring-fencing and its anticipated impacts for our clients who are affected by ring-fencing. You should read this guide alongside the other communications you’ve already received from your Relationship Manager, which provide specific details of some of the key effects for your business.

You should also consider the information contained in the Skilled Person’s Scheme Report (see the section “Scheme Document and Skilled Person’s Scheme Report” below) which set out the Skilled Person’s independent assessment of the effects of the RFTS, on persons other than Lloyds Bank plc and Bank of Scotland plc.

Effects on your relationships with third parties

Whilst we have aimed to identify all potential effects of the RFTS for your business, there could still be additional impacts which we are not able to identify that affect how you do business with other third parties and which may be outside Lloyds Banking Group’s control. Please could you provide to the relevant persons set out below, the information detailed as soon as possible and in any event prior to 16 January 2018.

These may include:

- Relationships with guarantors, grantors of security, syndicate members, obligors, note holders and other secured parties, insurers (i.e. who have provided insurance to counterparties in relation to security that is being affected by the Scheme) or other interested parties that may need to be aware of the effect of ring-fencing on them. Please make those parties aware of the RFTS and provide them with a copy of this guide, and ask those parties to consider what effect the RFTS may have for them, and that they can contact us if they require further information. Further copies of this guide are available, in paper or electronic form, from your Relationship Manager or are downloadable from our Group website at lloydsbankinggroup.com/ringfencing
• In relation to Special Purpose Vehicles that form part of a securitisation transaction, where liquidity facilities or a derivative transaction has been put in place with Lloyds Bank plc, the Issuer and the Trustee should consider whether they are required to, or expect to, notify noteholders, or any other party or person, under the terms of the relevant securitisation transaction documents and, if so, what method of communication will be used. We would like to offer our assistance in preparing such a notification, for example by providing any necessary factual information or input requested.

• Regarding any trade finance guarantees and letters of credit to be transferred to Lloyds Bank Corporate Markets plc via the RFTS:
  - Regarding beneficiaries, we have asked you to confirm that the underlying contract with the beneficiary does not reference any identity, credit rating or other criteria which must be satisfied by the Issuing Bank. Please make such beneficiaries aware of the RFTS and provide them with a copy of this guide, and ask them to consider what effect the RFTS may have for them, including any related to the credit rating of Lloyds Bank Corporate Markets plc. Please ask beneficiaries to convey the above details to any further parties to whom they may have assigned or transferred such instruments.
  - Regarding instruments that have been pledged or charged as security by the beneficiary to a third party, you have additionally been confirmed that the underlying contract between the pledgee and the beneficiary does not reference any identity, credit rating or other criteria which must be satisfied by the Issuing Bank. To the extent you have not already done so, please ask the beneficiary of any such trade finance guarantees and letters of credit to make any pledgees aware of the RFTS and provide them with a copy of this guide, and ask those pledgees to consider what effect that the RFTS may have for them, including in respect of the credit rating of Lloyds Bank Corporate Markets plc and any impact on their security.
  - Please ask pledgees to also convey the above details to any further parties to whom they may have in turn pledged or charged such instruments.

If you or any beneficiaries or pledgees would like to discuss further, please contact your Relationship Manager. Further copies of this guide are available, in paper or electronic form, from your Relationship Manager or are downloadable from our Group website at lloydsbankinggroup.com/ringfencing

• Tax implications that could be triggered by the implementation of ring-fencing, in particular for other non-UK jurisdictions.
• Potential termination of account hedging relationships as a result of the RFTS.
• For pension schemes or funds, there may be effects specific to the restrictions and regulations that apply to this type of business.
Lloyds Bank Corporate Markets plc preliminary credit rating

Ring-fenced and non-ring-fenced entities within a UK banking group will be rated separately by the credit rating agencies.

Fitch ratings, Moody’s and S&P have assigned Lloyds Bank Corporate Markets plc preliminary public ratings as shown below.

<table>
<thead>
<tr>
<th></th>
<th>Lloyds Bank plc (OpCo)</th>
<th>Lloyds Bank Corporate Markets plc</th>
<th>Dates of ratings</th>
<th>Approach Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fitch Ratings</strong></td>
<td>A+/F1</td>
<td>A/F1</td>
<td>17 July 2017</td>
<td>‘Top-Down’ - Lloyds Bank Corporate Markets plc preliminary ratings aligned with Viability (i.e. standalone) Rating of Lloyds Banking Group (HoldCo) reflecting high probability of group support</td>
</tr>
<tr>
<td><strong>S&amp;P Global</strong></td>
<td>A/A-1</td>
<td>A-/A-2</td>
<td>17 July 2017</td>
<td>‘Top-Down’ - Lloyds Bank Corporate Markets plc designated ‘Highly Strategic’ status and preliminary rating therefore 1 notch lower than OpCo rating</td>
</tr>
<tr>
<td><strong>Moody’s</strong></td>
<td>Aa3/P-1</td>
<td>A2/P-1</td>
<td>7 November 2017</td>
<td>‘Bottom-Up’ - Preliminary Credit rating granted based on detailed analysis of Lloyds Bank Corporate Markets plc in addition to factoring in support from Group and MREL issuance</td>
</tr>
</tbody>
</table>

Up to date published ratings are available on our Group website at lloydsbankinggroup.com/credit-ratings

You may need to inform credit rating agencies about your specific circumstances, for example in respect of the ratings that will apply to any notes you hold.

We've identified the following key contractual considerations in respect of Lloyds Bank Corporate Markets plc’s credit rating.
<table>
<thead>
<tr>
<th>Rating Trigger</th>
<th>Description</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trigger Events (Additional Termination Events - ATEs)</td>
<td>Certain contracts may carry early termination rights contingent on Lloyds Bank Corporate Markets plc breaching credit rating triggers and we recognise and accept the counterparty right to terminate if rating triggers are breached.</td>
<td>If contracts contain triggers that are likely to be activated by the credit rating of Lloyds Bank Corporate Markets plc, we would like to further discuss your intentions prior to the transfer.</td>
</tr>
<tr>
<td>Credit Support Annex (CSA) Issues</td>
<td>A CSA may carry terms that dictate a revision of Threshold Amounts, Minimum Transfer Amounts or Independent Amounts as a result of a downgrade trigger being breached.</td>
<td>We will honour these terms of the CSA.</td>
</tr>
<tr>
<td>Counterparty Early Termination Rights</td>
<td>Certain contracts may carry early termination rights contingent on Lloyds Bank Corporate Markets plc breaching credit rating triggers and we will recognise where such rights exist.</td>
<td>If contracts contain triggers that are likely to be activated by the credit rating of Lloyds Bank Corporate Markets plc, we would like to further discuss your intentions prior to the transfer.</td>
</tr>
<tr>
<td>Loan Linked Hedging Triggers</td>
<td>Certain loan contracts may carry Linked Hedging Triggers which may come into effect if Lloyds Bank Corporate Markets plc has a lower credit rating than Lloyds Bank plc. Such contracts may require Lloyds Bank Corporate Markets plc to post collateral following such downgrade and Lloyds Bank Corporate Markets plc recognises such obligations.</td>
<td>If loan contracts contain Linked Hedging Triggers that are likely to be activated by the credit rating of Lloyds Bank Corporate Markets plc, we will discuss next steps with you (in the case of bilateral loans) or the Agent (in the case of syndicated loans).</td>
</tr>
<tr>
<td>Standby liquidity facilities</td>
<td>The credit rating of Lloyds Bank Corporate Markets plc, may trigger a requirement (if there is one) under liquidity facility agreements to request a standby drawing.</td>
<td>Any contractual requirements for the relevant Lloyds Banking Group entity to fund standby drawings that are triggered upon transfer pursuant to the RFTS will be fulfilled. The lower credit rating of Lloyds Bank Corporate Markets plc may result in its cost of funding or cost of regulatory capital, in its capacity as liquidity facility provider, being higher than that of Lloyds Bank plc. Many of the liquidity facilities permit these higher costs to be passed on to securitisation issuers, which would result in a higher rate of interest payable on the liquidity facility where it is fully drawn. Further, in the context of liquidity facilities which are not already drawn, the interest rate payable on any standby drawing may be higher than any commitment fees which were previously payable by the issuer on an undrawn liquidity facility. In both cases, this may mean reduced cash available to service securitisation noteholders and other secured creditors. Noteholders and/or other secured creditors could potentially be adversely affected due to increased costs as a consequence of the transfer or a standby drawing being triggered. The Issuer and the Trustee should consider whether they are required to, or expect to, notify noteholders, or any other party or person, under the terms of the relevant securitisation transaction documents and, if so, what method of communication will be used. We would like to offer our assistance in preparing such a notification, for example by providing any necessary factual information or input requested.</td>
</tr>
</tbody>
</table>

**Lloyds Bank Corporate Markets plc financial information**

We will publish financial information relating to Lloyds Bank Corporate Markets plc on our Group website at lloydsbankinggroup.com/ringfencing/ourapproach as it becomes available. Any financial information that is made available in relation to Lloyds Bank Corporate Markets plc is expected to be illustrative only at this stage and should be reviewed alongside the disclaimers that accompany that information.

**Implications for transferring business**

Some of your agreements and/or your wider relationship with Lloyds Banking Group may be affected by the RFTS and you should consider the implications of this. Your Relationship Manager will have sent you information or discussed with you certain key considerations that apply to you, but you should nonetheless review this section carefully. Some of these considerations may have an adverse effect on you, and in some cases the actions we have taken may have mitigated such effects. Please see the section titled Scheme Document and Skilled Person’s Scheme Report for information relating to the Skilled Person’s role in considering adverse effects of the RFTS.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of exposure set-off rights</td>
<td>Your contractual or common law rights to set-off loans against deposits or derivative positions will now apply differently. The right of set-off will exist separately for each of Lloyds Bank plc and Lloyds Bank Corporate Markets plc. In addition, the RFTS includes a general disapplication of set-off rights across legal entities, which means that any existing rights to set-off liabilities owed to Lloyds Bank plc against rights you have against Lloyds Bank Corporate Markets plc, and vice versa, will cease to exist.</td>
<td>In an insolvency situation you will not have the right to set-off business booked to Lloyds Bank Corporate Markets plc with business booked to Lloyds Bank plc. This means that the scope of business available to you for set-off purposes on insolvency is more limited than was the case prior to the RFTS becoming effective. The extent to which your right to set-off may be lost depends on any election you make in respect of grandfathering optionality. In addition, any rights of set-off across legal entities will cease to apply as a result of the RFTS. This change has been made because the ring-fencing legislation does not allow Lloyds Bank plc to allow rights owed to it by customers to be set-off against the liabilities that those customers owe to Lloyds Bank Corporate Markets plc.</td>
</tr>
<tr>
<td>Loss of netting, offset and discharge</td>
<td>The RFTS will create an ISDA and CSA between you and Lloyds Bank Corporate Markets plc which will be duplicates of your current documents. The associated transfer of trades under the RFTS and/or the entry into new trades may result in you having derivative transactions with Lloyds Bank plc and Lloyds Bank Corporate Markets plc. This may be dependent upon any grandfathering election and may result in a split netting set. Your net credit exposure and collateral requirements may be affected as a result of being split between Lloyds Bank plc and Lloyds Bank Corporate Markets plc. Similarly, the ability to net deposits against exposures will exist separately for each of Lloyds Bank plc and Lloyds Bank Corporate Markets plc.</td>
<td>Your net credit exposures will be calculated separately by Lloyds Bank plc and Lloyds Bank Corporate Markets plc, which means that you will not be able to net deposits and exposures across the ring-fence. Lloyds Bank plc and Lloyds Bank Corporate Markets plc will calculate separate collateral requirements and make separate margin calls. You will be required to settle separate net cash flows to Lloyds Bank plc and Lloyds Bank Corporate Markets plc rather than a single net cash flow across all trades. The extent, to which you will experience split netting sets, may depend on any election you make in respect of grandfathering optionality.</td>
</tr>
<tr>
<td>Administrative aspects of split proposition</td>
<td>If you have a banking proposition split between Lloyds Bank plc and Lloyds Bank Corporate Markets plc, you may experience ongoing additional administrative tasks. This includes instances whereby Lloyds Bank plc will remain as “Account Bank” (as our ring-fencing plans do not include transferring any “Account Bank” role from Lloyds Bank plc to Lloyds Bank Corporate Markets plc.)</td>
<td>Our single relationship team model will continue to operate across Lloyds Banking Group entities and has been designed to minimise any impact of having products and services booked with Lloyds Bank plc and Lloyds Bank Corporate Markets plc.</td>
</tr>
<tr>
<td>Operational changes (e.g. updating Standard Settlement Instructions for Lloyds Bank Corporate Markets plc)</td>
<td>While it is our aim to minimise disruption as we transition clients into Lloyds Bank Corporate Markets plc, you may need to make some operational updates to set up this new counterparty within your relevant systems.</td>
<td>We will be in touch ahead of contract transfer to confirm details and update and guide you on any operational changes required.</td>
</tr>
</tbody>
</table>
| Accounting implications                   | The process of contract replication/transfer, especially relative to ISDA Master Agreements and their respective derivative transactions, may have implications for the regulatory and accounting treatment of those trades. | You may wish to consider the accounting implications, if any on your particular situation. For example:  
- A change of counterparty in a bilateral derivative transaction may be treated for accounting purposes as termination of the existing derivative transaction and entering into a new one.  
- For those derivative transactions that you designated as hedges for International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practice in the UK (UK GAAP) accounting purposes, it is possible that a transfer could result in the termination of the accounting hedge relationship in your financial accounts, which may lead to increased accounting income statement volatility due to accounting for these derivative transactions at fair value through profit or loss. If you are subject to prudential capital requirements, you may have to make additional provisions in your accounts relating to regulatory capital or for credit valuation adjustments to the fair value measurements of any derivative transactions. |
<p>| Credit lines/limits                        | Credit lines and settlement limits will be reallocated based on each client’s specific circumstances. | Credit lines for certain markets products will move with the product. Settlement limits for trading activities will be confirmed later in 2018. |</p>
<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lloyds Bank Corporate Markets plc credit rating</strong></td>
<td>Fitch ratings, Moody’s and S&amp;P have published preliminary credit ratings. Once published, the confirmed ratings for Lloyds Bank Corporate Markets plc will be made available on our Group website at lloydsbankinggroup.com/credit-ratings.</td>
<td>We expect the confirmed credit ratings of Lloyds Bank Corporate Markets plc to be lower than that of Lloyds Bank plc. Certain agreements include clauses which reference the bank’s credit rating. Please see the Credit Rating section of this guide for further details.</td>
</tr>
<tr>
<td><strong>Customer monitoring or hedging of Lloyds Bank Corporate Markets plc credit risk</strong></td>
<td>Credit Default Swaps (CDS) on Lloyds Bank Corporate Markets plc will not be available in the market until after the Effective Date.</td>
<td>Clients who intend to manage credit risk exposure to Lloyds Bank Corporate Markets plc via the purchase of CDSs will not be able to do so immediately.</td>
</tr>
<tr>
<td><strong>Preservation of payment priority</strong></td>
<td>The RFTS ensures that priority and ranking of existing payment obligations under transferring products will not change as a result of the transfer of those obligations under the RFTS.</td>
<td>None, but you should be aware of this effect of the RFTS.</td>
</tr>
<tr>
<td><strong>Regulatory large exposure limits</strong></td>
<td>UK regulation states a bank cannot have an exposure of greater than 25% of their Tier 1 Capital linked to a single client at a group level. United States regulation states that a bank cannot have an exposure of greater than 15% of their Capital and Surplus linked to a single client at a group level.</td>
<td>We have been working with any clients potentially affected by the regulatory large exposure limit to understand the effects.</td>
</tr>
<tr>
<td><strong>Status/Regulatory representations</strong></td>
<td>We expect the RFTS to replicate for Lloyds Bank Corporate Markets plc all representations and warranties that were offered by Lloyds Bank plc in respect of transferring products other than those relating to incorporation in Scotland.</td>
<td></td>
</tr>
<tr>
<td><strong>Tax representations</strong></td>
<td>We expect the RFTS to replicate for Lloyds Bank Corporate Markets plc all representations and warranties that were offered by Lloyds Bank plc in respect of transferring products other than those relating to incorporation in Scotland.</td>
<td></td>
</tr>
<tr>
<td><strong>Loans with RPI optionality</strong></td>
<td>If your existing credit facility with Lloyds Bank plc is remaining with Lloyds Bank plc and contains the ability to request drawdown with payments of interest referencing the Retail Price Index, such a drawdown would, subject to approval and meeting certain conditions, require the facility being transferred to Lloyds Bank Corporate Markets plc.</td>
<td></td>
</tr>
<tr>
<td><strong>Receivable Purchase Arrangements</strong></td>
<td>Where a Receivable Purchase Arrangement includes a provision such that we, as the purchaser, are entitled to charge you amounts calculated with reference to our cost of funds (or are otherwise indemnified for our costs and expenses), a transfer to Lloyds Bank Corporate Markets plc may result in an increase in such amounts.</td>
<td></td>
</tr>
<tr>
<td><strong>Default interest and close-out amounts under ISDA Master Agreements</strong></td>
<td>Any default interest payable by you under an ISDA Master Agreement will depend on our costs of funding, and any close-out amount payable under an ISDA Master Agreement (where we are the party making the calculations) may depend on quotes or rates provided to us by third parties. A transfer to Lloyds Bank Corporate Markets plc may result in an increase in the amount payable by you (or a decrease in the amount payable to you).</td>
<td></td>
</tr>
<tr>
<td><strong>Other increased payments</strong></td>
<td>In some cases, increased payments may be required from a customer. For example, in some loan agreements the interest rate charged to customers may be increased if the cost of funding of a lender or lenders exceeds a benchmark (i.e. a “market disruption” clause). As Lloyds Bank Corporate Markets plc’s cost of funding may be higher than Lloyds Bank plc (due to a lower credit rating) there is a greater chance of a market disruption clause being triggered which may result in an increase in the amount payable by you.</td>
<td>In addition, Lloyds Bank Corporate Markets plc will become a reference bank for products where Lloyds Bank plc is currently a ‘reference bank’. This means that if no screen rate is available for the relevant currency or interest period, the reference bank will provide the agent with details of the rate at which it could borrow funds, and this rate will form the basis of the applicable benchmark rate. A transfer to Lloyds Bank Corporate Markets plc may result in an increase in the amount payable by you if the rate supplied by Lloyds Bank Corporate Markets plc is higher than the rate that would have been supplied by Lloyds Bank plc. However, the risk of such an adverse impact is low as the ‘reference bank rate’ would be determined after consultation with the wider Lloyds Banking Group and therefore would be likely to be the same or substantially similar to any rate provided by Lloyds Bank plc.</td>
</tr>
<tr>
<td><strong>Effect of non UK rules on local “grandfathering” provisions</strong></td>
<td>If you are subject to non UK rules relating to mandatory clearing of and/or margining requirements for derivative transactions, your local regulator(s) may regard the transfer under the RFTS as constituting a modification of or entry into a derivative transaction, which may cause the loss of any local “grandfathering” provisions from which you had benefited. 1</td>
<td>From an English law perspective, it is expected that the transfer of a particular derivative through the RFTS will not result in the loss of “grandfathering” for the purposes of clearing and/or margining requirements under Regulation (EU) No 648/2012 of the European Parliament and the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (“EMIR”), and accordingly, no additional clearing and/or margining requirements for such a derivative will be triggered under EMIR. However, there is a risk that a court or a regulator in another EEA jurisdiction (or indeed in the UK) could interpret EMIR differently and could conclude that the transfer of a particular derivative from the relevant Transferor to the Transferee pursuant to the Scheme will result in the loss of “grandfathering” under EMIR, so that additional clearing and/or margining requirements in respect of such derivative are triggered.</td>
</tr>
<tr>
<td><strong>Trade reporting</strong></td>
<td>In order to ensure that the records of trade repositories are up-to-date, the modification or transfer of a derivative will need to be reported to the relevant trade repository.</td>
<td></td>
</tr>
<tr>
<td><strong>Other adverse effects</strong></td>
<td>Please notify us if you consider that you may suffer any adverse effects that may arise as a result of the RFTS, to the extent not otherwise identified in this guide.</td>
<td></td>
</tr>
</tbody>
</table>

You may wish to seek independent advice if you have concerns about any of the above points, any other point raised in this guide, or any other aspects of the RFTS. However, before seeking such advice, please ensure that you have considered section 20(Fees) of the
Scheme Document, which is available on our Group website at lloydsbankinggroup.com/ringfencing/keydocuments, regarding the fees that Lloyds Bank plc will reimburse and noting in particular that optional client legal costs are generally not covered (except for certain cases where Lloyds Bank plc are already contractually obliged to reimburse such amounts). Please note in particular the conditions and limitations that apply to those reimbursement provisions of the Scheme Document.

For any effects outside of those communicated by your Relationship Manager or included within this document, or those subject to change outside of Lloyds Banking Group's control, you should contact your Relationship Manager so that we can consider any such implications with you.
### Products we can no longer provide

The following products will no longer be available to clients classified as a Relevant Financial Institution (RFI) from Lloyds Bank plc or Lloyds Bank Corporate Markets plc. Please see the section titled Scheme Document and Skilled Person’s Scheme Report for information relating to the Skilled Person’s role in considering implications of the RFTS.

<table>
<thead>
<tr>
<th>Product</th>
<th>Circumstances</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overdrafts</strong></td>
<td>Cash Management and Payments facilities will continue to be provided to clients, including RFIs, by Lloyds Bank plc. Lloyds Bank Corporate Markets plc will not offer any such facilities. However, as a ring-fenced bank, Lloyds Bank plc will no longer be able to extend an overdraft facility to RFI clients due to the exposure it creates. We will therefore no longer be offering RFI clients overdraft facilities. If you are an RFI and have an overdraft facility, you will receive a separate formal notification in respect of this product in due course where applicable.</td>
<td></td>
</tr>
</tbody>
</table>

Our Global Transaction Banking team has reviewed its services and where there are alternative options which may continue to service your needs your Relationship Manager will have discussed this with you earlier in the year.  

1 Please note we will be applying an exemption to the ring-fencing rules which permits Vostro overdrafts to clients who are banks to remain with ring-fenced banks, and these will therefore remain with Lloyds Bank plc. |

| **Lending** | New Products | The range of new lending products offered by Lloyds Bank Corporate Markets plc will be narrower than the range that is currently available from Lloyds Bank plc and will not include Bank of England Base Rate, and fixed rate loans or access to lending schemes supported by the UK Government (e.g. Regional Growth Fund, Enterprise Finance Guarantee and Funding for Lending) or conduit lending. These products will continue to be available from Lloyds Bank plc to certain non-RFI clients. |

| Existing loans to RFI clients | Base Rate loans, Fixed rate loans and Retail Price Index (RPI) referenced loans - Your loan will be transferred to Lloyds Bank Corporate Markets plc, however we wish to make you aware now that Lloyds Bank Corporate Markets plc will not be refinancing the facility on its existing terms upon maturity of the current arrangement. |

| Changes to securitised lending for RFI clients | Securitised lending - Lloyds Bank Corporate Markets plc will not be offering lending facilities funded via an Asset Backed Commercial Paper (ABCP) conduit to clients. It will continue to offer securitised lending through direct funding. Where you are affected, your Relationship Manager and product specialists will have discussed the option of restructuring the lending from Lloyds Bank Corporate Markets plc. In the event that the alternative is not suitable to meet your needs then we will need to discuss a timeframe with you for withdrawing the product transaction from the Lloyds Bank plc sponsored conduit during 2018. |

| **Commercial cards – credit cards and charge cards** | As a ring-fenced bank Lloyds Bank plc will no longer be able to provide RFI clients with commercial credit and/or charge cards, due to the exposures that these products create, and Lloyds Bank Corporate Markets plc has not established a commercial credit/charge cards proposition. We will therefore no longer be offering RFI clients any commercial credit/charge card facilities. Where applicable, your Relationship Manager will have discussed this with you (including any options that might be available to allow you to continue accessing the commercial card proposition from Lloyds Bank plc). If you are an RFI and have a commercial credit/charge card facility you will receive a separate formal notification in respect of this product in due course. |

| **Invoice Finance** | Lloyds Bank plc and other members of the ring-fenced sub-group will continue to provide Invoice Finance facilities to non-RFI clients.  

We will not be offering any Invoice Finance facilities for RFI clients through Lloyds Bank plc or Lloyds Bank Corporate Markets plc.  

If you are affected, your Relationship Manager will have discussed what this means with you. |

| **Asset Finance** | Lloyds Bank plc will continue to provide Asset Finance facilities to RFI clients where permitted to do so under one of the exemptions to the ring-fencing rules. Lloyds Bank Corporate Markets plc has not established any Asset Finance proposition outside of the US. We will therefore only be able to continue providing such facilities where we are permitted to do so from Lloyds Bank plc.  

If you are affected, your Relationship Manager will have discussed what this means with you. |

### Other contractual points to consider

Please note that further information on the points below is set out in the Scheme Document and the summary of the Scheme Document, both of which are available on our Group website at lloydsbankinggroup.com/ringfencing/keydocuments or by writing to your Relationship Manager.

### Residual assets/liabilities

If the transfer of a particular asset or liability under the RFTS does not or cannot happen on the Effective Date for any of the reasons set out in the Schemes Document, the RFTS allows for the transfer of such assets or liabilities to happen at a later date, or to be
effected by other means, which where the jurisdiction of the Court allows will be prior to 1 January 2019 for all such assets and liabilities other than derivative transactions that can benefit from grandfathering. Until the transfer takes place the relevant assets or liabilities will continue to be held by Lloyds Bank plc, but will be held on trust for the benefit of Lloyds Bank Corporate Markets plc, unless there are specific barriers to such a trust being established (those barriers are described further in the Scheme Document).

Historic liabilities

Once the RFTS becomes effective, Lloyds Bank Corporate Markets plc will be responsible for carrying out all obligations in relation to the business that has been transferred to it by the RFTS. However, in broad terms the RFTS provides that any liabilities or obligations (including those that arise following the RFTS becoming effective) relating to the assets transferring by the RFTS which relate to actions or circumstances that arose prior to the date on which the RFTS became effective, will remain liabilities of Lloyds Bank plc.

Mandates/marketing preferences

The RFTS allows Lloyds Bank Corporate Markets plc to benefit from the prevailing mandates and marketing preferences (i.e. client preferences as to use or otherwise of their personal data for marketing purposes) provided to Lloyds Bank plc prior to the Effective Date.

Confidential information

Lloyds Bank Corporate Markets plc will broadly have the same confidentiality and data protection obligations in relation to the business being transferred by the RFTS (including personal data for which Lloyds Bank Corporate Markets plc will become responsible) that Lloyds Bank plc had prior to such transfer.

Following the RFTS becoming effective, there may be instances where information will be shared between Lloyds Bank plc and Lloyds Bank Corporate Markets plc, for example:

- If required for the purpose of the RFTS.
- If required by Lloyds Bank Corporate Markets plc in relation to the administration or enforcement of products which have transferred to it, or by Lloyds Bank plc in relation to the administration or enforcement of products which have remained with them.
- If required for reporting, accounting or regulatory reasons.
- If required for the effective provision of services between Lloyds Bank plc and Lloyds Bank Corporate Markets plc.

For example, these provisions will allow Lloyds Bank Corporate Markets plc to obtain the ‘Know Your Client’ information it requires. They are also particularly relevant where both banks hold products or services which were previously linked but have been split because of the RFTS.

In addition, Lloyds Bank Corporate Markets plc may share information with the wider Lloyds Banking Group to the extent that Lloyds Bank plc had that right previously.

Further information regarding our approach to the protection of your data can be found at commercialbanking.lloydsbank.com/privacy/

Conduct of proceedings

In proceedings by or against Lloyds Bank plc in relation to assets and liabilities transferring under the RFTS (bearing in mind that certain related liabilities will not be transferring – please see the ‘Historic Liabilities’ section above) shall after the Effective Date (or later if the relevant asset/liability transfers later under the RFTS) be by or against Lloyds Bank Corporate Markets plc, except as otherwise agreed between Lloyds Bank plc and Lloyds Bank Corporate Markets plc (and, in such a case, notified specifically to you).

Scheme Document and Skilled Person’s Scheme Report

As described in Section 2 above, the Skilled Person is an independent expert who has written the Skilled Person’s Scheme Report which must consider whether persons, other than Lloyds Bank plc and Bank of Scotland plc, are likely to be adversely affected by the RFTS and, if so, whether the adverse effect is likely to be greater than is reasonably necessary to achieve the purpose of the RFTS (which, in broad terms, is to enable Lloyds Bank plc and Bank of Scotland plc to continue their activities as RFBs in a way that is compliant with ring-fencing legislation). The PRA in consultation with the FCA will have regard to the Skilled Person’s Scheme Report in deciding whether to approve Lloyds Banking Group’s application to the Court for sanction of the RFTS. The Court will also rely in part on the Skilled Person’s Scheme Report when deciding whether to sanction the RFTS. Lloyds Banking Group has appointed Mike Lloyd of Deloitte as Skilled Person for the RFTS.

The following key documents are available on our Group website at lloydsbankinggroup.com/ringfencing/keydocuments or can be provided by post upon request via your Relationship Manager:

- Scheme Document (which sets out the legal terms of the RFTS)
• A summary of the Scheme Document
• The Skilled Person’s Scheme Report
• A summary of the Skilled Person’s Scheme Report
• A summary of the key terms of the security trust and Intercreditor Agreement
• A summary of key financial information in respect of Lloyds Bank Corporate Markets plc (which is at this stage illustrative only, and therefore should be read in light of the accompanying disclaimers in respect of that information).
• Various orders and judgements already given by the Court in relation to the Scheme.

These documents provide further details of the RFTS, including more detail on many of the issues outlined in this guide.

**Next steps**

• This guide and accompanying letter are part of the process leading up to the Court Sanction Hearing that is currently scheduled for 27 March 2018, in which the Court will determine whether to approve Lloyds Banking Group’s proposed RFTS. Please refer to the website periodically for further information on the timing and location of that hearing.

• If you wish to allege that you could be adversely affected by the RFTS, the process to raise an objection to the Court is available on our Group website at lloydsbankinggroup.com/ringfencing/courtprocess. It is also available as a printed document in any of our branches or by contacting your usual point of contact. **Please note the Court may restrict the way in which it hears your objection if made after 28 February 2018, so if you do wish to raise one it may be advantageous to do so before then.**

• Before the Effective Date we will send you a list of the trade IDs that will be transferred. We’ll also contact you if you need to take any actions in respect of posting collateral or other collateral requirements.

If you have any questions please contact your Relationship Manager.