

HSBC

HSBC BANK PLC

(incorporated with limited liability in England and Wales)

€15 billion

Covered Bond Programme

guaranteed as to payments of interest and principal by

HSBC Mortgage Limited Liability Partnership

(a limited liability partnership incorporated in England and Wales)

Financial Services Authority
UK Listing Authority
Document approved

Date: 1 November 2006

Signed: 1 

Signed: 2

Under this €15 billion covered bond programme (the "Covered Bond Programme"), HSBC Bank plc (the "Issuer") may from time to time issue bonds (the "Covered Bonds") denominated in any currency agreed between the Issuer and the relevant Dealer(s) (as defined below). The Covered Bonds will constitute direct, unsecured and unsubordinated obligations of the Issuer.

HSBC Mortgage Limited Liability Partnership (the "LLP") has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Cover Pool (as defined below). Recourse against the LLP under its guarantee is limited to the Cover Pool.

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

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers appointed under the Covered Bond Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this base prospectus (the "Base Prospectus") to the relevant Dealer(s) shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

This document (which expression shall include all documents incorporated by reference herein) has been prepared for the purpose of providing disclosure information with regard to the Covered Bonds. Application has been made for admission to the Official List of the Financial Services Authority (the "UK Listing Authority") in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "FSMA") and for admission to the gilt-edged and fixed interest market of the London Stock Exchange plc (the "London Stock Exchange"). This document has been approved as a base prospectus by the UK Listing Authority, which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom. The gilt-edged and fixed interest market of the London Stock Exchange is a regulated market for the purposes of the Investment Services Directive 93/22/EFC (the "Regulated Market of the London Stock Exchange"). Application has been made for the Covered Bonds issued under the Covered Bond Programme during the period of 12 months from the date of the base prospectus to be admitted to trading on the Regulated Market of the London Stock Exchange.

References in this Base Prospectus to Covered Bonds being listed and all related references shall mean that such Covered Bonds are intended to be admitted to trading on the Regulated Market of the London Stock Exchange and have been listed on the Regulated Market of the London Stock Exchange. Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under terms and conditions of the Covered Bonds) of Covered Bonds will be set out in a separate document containing the final terms for that Tranche (each a "Final Terms") which, with respect to Covered Bonds to be listed on the London Stock Exchange, will be delivered to the London Stock Exchange on or before the date of issue of such Tranche of Covered Bonds.

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

The Issuer and the LLP may agree with any Dealer and the Bond Trustee that Covered Bonds may be issued in a form not contemplated by the terms and conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds intended to be listed on the London Stock Exchange) a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

The Covered Bonds issued under the Covered Bond Programme are expected on issue to be assigned an "AAA" rating by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and an "Aaa" rating by Moody's Investors Service Limited ("Moody's") and an "AAA" rating by Fitch Ratings Limited ("Fitch"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Particular attention is drawn to the section herein entitled Risk Factors.

Arranger and Dealer

HSBC

The date of this Base Prospectus is 1 November 2006.

Each of the Issuer and the LLP (each a Responsible Person for the purposes of the Prospectus Directive) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and the LLP (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

None of the Arranger, the Dealers, the Bond Trustee or the LLP Security Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers, the Bond Trustee or the LLP Security Trustee as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer and the LLP in connection with the Covered Bond Programme. None of the Arranger, the Dealers, the Bond Trustee or the LLP Security Trustee accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer and the LLP in connection with the Covered Bond Programme.

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

Neither this Base Prospectus nor any other information supplied in connection with the Covered Bond Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by HSBC Bank plc (in any of its capacities referred to herein), the LLP, any of the Dealers, the Bond Trustee or the LLP Security Trustee that any recipient of this Base Prospectus or any other information supplied in connection with the Covered Bond Programme or any Covered Bonds should purchase any Covered Bonds.

Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the LLP.

Neither this Base Prospectus nor any other information supplied in connection with the Covered Bond Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of HSBC Bank plc (in any of its capacities referred to herein), the LLP, any of the Dealers, the Bond Trustee or the LLP Security Trustee to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning HSBC Bank plc (in any of its capacities referred to herein) and/or the LLP is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Covered Bond Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers, the Bond Trustee and the LLP Security Trustee expressly do not undertake to review the financial condition or affairs of HSBC Bank plc (in any of its capacities referred to herein) or the LLP during the life of the Covered Bond Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. HSBC Bank plc (in each of its capacities referred to herein) the LLP, the Dealers, the Bond Trustee and the LLP Security Trustee do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by HSBC Bank plc in any of its capacities referred to

herein, the LLP, the Dealers, the Bond Trustee or the LLP Security Trustee which would permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the United Kingdom, the Republic of Italy and certain other countries – see also in this regard “*Subscription and Sale*” and the Final Terms for any particular Series of Covered Bonds.

THE COVERED BONDS AND THE COVERED BOND GUARANTEE FROM THE LLP HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR THE STATE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN CIRCUMSTANCES WHICH WILL NOT REQUIRE THE ISSUER TO REGISTER UNDER THE INVESTMENT COMPANY ACT.

As set forth in the applicable Final Terms, the Covered Bonds are being offered and sold (a) in reliance on Rule 144A (“Rule 144A”) under the Securities Act, in each case to “qualified institutional buyers” (as defined in Rule 144A) (“QIBs”) who are also “qualified purchasers” (“Qualified Purchasers”) (as further described herein) within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended (the “Investment Company Act”), and/or (b) in accordance with Regulation S under the Securities Act (“Regulation S”) to non-US persons in offshore transactions. Prospective purchasers are hereby notified that the sellers of the Covered Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

THE ISSUER HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT BY REASON OF THE EXEMPTION FROM REGISTRATION CONTAINED IN SECTION 3(C)(7) THEREOF AND THE COVERED BONDS MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT TO A PERSON (1) THAT IS NOT A US PERSON; (2) THAT IS ACQUIRING AN INTEREST IN THE COVERED BONDS AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED HEREIN) IN A TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S; OR (3) THAT IS A QUALIFIED PURCHASER.

For a more complete description of restrictions on offers, sales and transfers, see “*Transfer Restrictions*”.

Covered Bonds in bearer form are subject to US tax law requirements. Subject to certain exceptions, the Covered Bonds in bearer form may not be offered, sold or delivered within the United States or to US persons.

THE COVERED BONDS HAVE NOT BEEN RECOMMENDED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON,

SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Subject to the provisions herein with respect to the issuance of bearer notes, the Covered Bonds sold in reliance on Regulation S will each initially be represented by one or more permanent global Covered Bonds in registered form without interest coupons (each a “Regulation S Global Registered Covered Bond”) deposited with a custodian for, and registered in the name of, a nominee of DTCC for the respective accounts of Euroclear and Clearstream. Beneficial interests in a Regulation S Global Covered Bond may only be held through Euroclear or Clearstream at any time and may not be held by a US person at any time. Subject to the provisions herein with respect to the issuance of bearer notes, the Covered Bonds sold in reliance on Rule 144A will each initially be represented by one or more permanent global Covered Bonds in registered form without interest coupons (each a “Rule 144A Global Registered Covered Bond” and, together with each Regulation S Global Covered Bond, “Global Covered Bonds”) deposited with a custodian for, and registered in the name of, a nominee of DTCC. DTCC will credit the account of each of its participants with the principal amount of the Covered Bonds being purchased by or through the participant. Beneficial interests in a Rule 144A Global Covered Bond will be shown on, and transfers thereof will be effected only through, records maintained by DTCC and its direct and indirect participants. Regulation S Global Registered Covered Bonds may also be deposited with a common depository for Euroclear and Clearstream, Luxembourg.

Notwithstanding any provision herein, every person (and each employee, representative or other agent of such person) may disclose to any and all other persons, without limitation of any kind, any information provided to him by or on behalf of the Issuer relating to the US tax treatment and US tax structure of transactions under the Covered Bond Programme and all materials of any kind (including opinions or other tax analyses) that are provided by or on behalf of the Issuer to that person relating to such US tax treatment and US tax structure.

All references in this Base Prospectus to “£”, “pounds”, “Pounds Sterling” and “Sterling” are to the lawful currency of the United Kingdom, all references to “\$”, “dollars”, “US\$”, “USD” and “US dollars” are to the lawful currency of the United States of America and all references to “€”, “Euro” and “EUR”, are to the lawful currency of the member states of the European Union that have adopted or adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

In connection with the issue of any Tranche of Covered Bonds, the Dealer(s) (if any) disclosed as stabilising manager (or persons acting on behalf of any stabilising manager) in the applicable Final Terms may over-allot Covered Bonds (provided that, in the case of any Tranche of Covered Bonds to be admitted to trading on the London Stock Exchange, the aggregate principal amount of Covered Bonds allotted does not exceed 105 per cent of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that a stabilising manager will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Covered Bonds, so long as the Covered Bonds are “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the LLP will promptly furnish, upon request of a holder of a Covered Bond, to such holder and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if, at the time of such request, the Issuer is neither a reporting company under Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a company incorporated with limited liability in England and Wales. Most of its assets are located outside the United States. In addition, all of its officers and directors reside outside the United States and most of the assets of these persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against any of them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer or the LLP to differ materially from the information presented herein. When used in this Base Prospectus, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the LLP and the Issuer and their management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Neither the Issuer nor the LLP undertakes any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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DOCUMENTS INCORPORATED BY REFERENCE

The auditor's report and audited consolidated and non-consolidated annual financial statements of the Issuer for the financial years ended 31 December 2005 and 31 December 2004 (see "*The Issuer – General Information – Financial Information*" for a description of the financial statements currently published by the Issuer) which have previously been published and have been filed with Companies House shall be deemed to be incorporated in, and to form part of, this Base Prospectus.

Any information incorporated by reference into the above financial statements is not incorporated in, and does not form part of, this Base Prospectus.

Save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any such subsequent document all, or the relevant portion of which is deemed to be incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Any information not listed in the cross-reference list but included in the documents incorporated by reference, is given for information purposes only.

The Issuer will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference (other than the Issuer's audited annual and unaudited interim financial statements, in relation to which, see below) unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer, at its offices set out at the end of this Base Prospectus. The Issuer's audited annual and unaudited interim financial statements are available online, without charge, from www.hsbc.co.uk. In addition, such documents (including the Issuer's audited annual and unaudited interim financial statements) will be available free of charge from the principal office in London for Covered Bonds listed on the London Stock Exchange and from the internet site of the London Stock Exchange at www.londonstockexchange.com/cnbg/pricesnews/marketnews/. The Issuer and the LLP will, in connection with the listing of the Covered Bonds on the London Stock Exchange, so long as any Covered Bond remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the LLP which is not reflected in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Covered Bonds to be listed on the London Stock Exchange. The Issuer and the LLP have each undertaken to the Arranger in the Programme Agreement (as defined in Subscription and Sale) that they will comply with Section 87G of the Financial Services and Markets Act 2000 ("FSMA").

If the terms of the Covered Bond Programme are modified or amended in a manner which would make this Base Prospectus, as so modified or amended, inaccurate or misleading, a new base prospectus will be prepared.

Cross Reference List

	<i>Annual Report 2004</i>	<i>Annual Report 2005</i>
<i>Financial Statements</i>		
<i>Commission Regulation (EC) No. 809/2004, Annex IX, 11.1</i>		
<i>HSBC Bank plc</i>		
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PROSPECTUS SUMMARY

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

PROGRAMME STRUCTURAL SUMMARY

The following is a brief summary description of the Covered Bond Programme under which the Covered Bonds will be issued.

The Covered Bond Programme

The Issuer will establish the Covered Bond Programme on 1 November 2006 or such other date as the Issuer and the Dealers may agree (the “**Programme Establishment Date**”). Up to €15 billion (or its equivalent in other currencies) aggregate Principal Amount Outstanding of Covered Bonds may be outstanding at any one time under the Covered Bond Programme. The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer.

Under the terms of the Covered Bond Programme, the Issuer may from time to time issue Covered Bonds in any currency. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer or Dealers prior to the issue of the Covered Bonds and will be set out in the Terms and Conditions of the Covered Bonds endorsed on, attached to, or incorporated by reference into, the Covered Bonds, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Covered Bonds, as more fully described under “*Form of the Covered Bonds*”.

The Final Terms for a Tranche, and for the Series of which it is part, will supplement the terms and conditions of the Covered Bonds in this Base Prospectus, and must be read in conjunction with this Base Prospectus and any supplement thereto. The terms and conditions applicable to any particular Tranche of Covered Bonds are the terms and conditions of the Covered Bonds as supplemented by the relevant Final Terms.

Covered Bonds issued under the Covered Bond Programme will be issued in Series. Covered Bonds of the same Series which are issued on the same date (each an “**Issue Date**”) will form a single Tranche and will be identical in all respects (including as to listing). A Tranche of Covered Bonds together with any further Tranche or Tranches which are expressed to be consolidated to form a single Series and with identical terms (except for their respective Issue Dates, Issue Prices and Interest Commencement Dates) shall form a single Series. More than one Series of Covered Bonds may be issued on the same Issue Date. There will be no separate classes of Covered Bonds. Each Series of Covered Bonds may be denominated in any of sterling, US dollars and/or Euros or any other currency specified in the relevant Final Terms. Covered Bonds of the same Series will rank *pari passu* and *pro rata* among themselves without priority or preference. Each Series of Covered Bonds will cross accelerate as against the LLP at the same time following service of a Guarantee Acceleration Notice but will not otherwise contain a cross-default provision.

Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, the Bond Trustee will be required to serve a Notice to Pay on the LLP if the Issuer fails (subject to certain grace periods) to pay interest or principal in respect of the Covered Bonds when due, or if certain other events occur, including breach of any of the Covered Bond Coverage Tests (subject to certain grace periods), insolvency of the Issuer or the LLP or material breach by either of them of certain obligations under the LLP Transaction Documents. Following the service of a Notice to Pay, the LLP will be required to pay an amount equal to all Guaranteed Amounts in respect of the Covered Bonds when they become Due for Payment. The obligations of the LLP under the Covered Bond Guarantee are irrevocable and constitute direct, unsubordinated and (following the delivery by the Bond Trustee of a Notice to Pay on the LLP) unconditional obligations of the LLP, secured as provided in the LLP Security Deed. The recourse of the Covered Bondholders to the LLP under the Covered Bond Guarantee will be limited to the extent of the assets in the Cover Pool, described further below. All payments made by the LLP to Covered Bondholders under the Covered Bond Guarantee will be subject to the prior payment of certain higher ranking payments in accordance with the relevant priority of payments described in “*Transaction Cashflows*”.

LLP Security

The LLP has created security over, *inter alia*, the Cover Pool in favour of the LLP Security Trustee (for itself and for the benefit of certain of the other LLP Secured Creditors) pursuant to the LLP Security Deed to secure its obligations under the Covered Bond Guarantee and the LLP Transaction Documents. The Covered Bondholders will have the benefit of the security over to the Cover Pool, described further below.

Assets of the LLP

As at the date of this Base Prospectus, the assets of the LLP comprise residential Mortgages originated by the Issuer and secured over Mortgaged Properties located in England, Wales, Northern Ireland and Scotland, as well as certain amounts standing to the credit of the Covered Bond Account. The Issuer will, subject to the satisfaction of certain conditions, including the Eligibility Criteria, be permitted to assign further Mortgages (together with Further Advances in respect of Mortgages already held by the LLP) to the LLP from time to time. In addition the Issuer may also transfer Qualifying Additional Collateral (such as cash deposits) to the LLP from time to time. As at the date of this Base Prospectus, no Qualifying Additional Collateral has been transferred to the LLP.

All of the assets of the LLP will be held either in the Mortgage Portfolio or the Additional Covered Bond Collateral Portfolio. Prior to the delivery of a Notice to Pay, Mortgages assigned to the LLP will generally be held in the Mortgage Portfolio, although there are circumstances in which Mortgages will be held in the Additional Covered Bond Collateral Portfolio. Qualifying Additional Collateral (if any) assigned to the LLP will be held in the Additional Covered Bond Collateral Portfolio.

The Cover Pool

The Cover Pool will comprise the Mortgage Portfolio (to the extent of the Covered Bond Entitlement, described below) and all assets in the Additional Covered Bond Collateral Portfolio (including amounts in the Covered Bond Account).

Shares and Entitlements in the Mortgage Portfolio Prior to a Notice to Pay

The RMBS Member has a partnership interest in the LLP, which is represented for calculation purposes by the RMBS Share. The RMBS Share entitles the RMBS Member to receive certain cashflows from the Mortgage Portfolio on each Distribution Date. As at the Programme Establishment Date, the RMBS Share equals zero.

The Issuer has a partnership interest in the LLP, which is represented for calculation purposes by the HSBC Share. The HSBC Share in the Mortgage Portfolio, generally, equals the aggregate Principal Amount Outstanding of Mortgages in the Mortgage Portfolio less the RMBS Share.

For calculation purposes, the HSBC Share in the Mortgage Portfolio will comprise two entitlements, referred to as the Covered Bond Entitlement and the Minimum Seller Entitlement. The Minimum Seller Entitlement will generally be equal to the aggregate of (i) all Portfolio Overcollateralisation Amounts, (ii) a percentage of the RMBS Share to cover certain risks, such as set-off risk, in the Mortgage Portfolio (which percentage will equal zero for so long as the Issuer's long-term debt obligations are rated at least A- by S&P, A3 by Moody's and A- by Fitch) and (iii) such additional amounts as may be specified pursuant to the Partnership Deed as described in "*The HSBC Share and the RMBS Share in the Mortgage Portfolio – Covered Bond Entitlement and Minimum Seller Entitlement*". The Covered Bond Entitlement will generally equal the Principal Amount Outstanding of the Mortgages in the Mortgage Portfolio less the aggregate of the Minimum Seller Entitlement and the RMBS Share.

The RMBS Member will be permitted to increase the RMBS Share from time to time, which will cause a decrease in the HSBC Share (and thus the Covered Bond Entitlement). The RMBS Member will not be able to increase the size of the RMBS Share to the extent that this would cause a breach of the Covered Bond Coverage Tests or otherwise cause a downgrade in the ratings assigned by the Rating Agencies to any Covered Bonds then outstanding.

Shares and Entitlements in the Mortgage Portfolio Following to a Notice to Pay

If a Notice to Pay is served on the LLP, the LLP will be required to transfer from the Mortgage Portfolio to the Additional Covered Bond Collateral Portfolio randomly-selected Mortgages and principal collections having, together, an aggregate principal amount equal to the Covered Bond Entitlement. This Asset Segregation process will reduce the Covered Bond Entitlement to zero but will have no effect on the principal amount of assets in the Cover Pool.

Covered Bond Coverage Tests

The Cover Pool will be assessed under a number of tests, including the following (the “**Covered Bond Coverage Tests**”):

- (i) the Asset Coverage Test, which requires the aggregate amount of the assets in the Cover Pool to exceed the Sterling Equivalent of the aggregate Principal Amount Outstanding of Covered Bonds by a prescribed amount (see “*Features of the Covered Bond Programme – Covered Bond Tests – Asset Coverage Test*” for more detail); and
- (ii) the Portfolio Yield Test, which requires the income yield from the Cover Pool to equal or exceed the amount needed to service the interest payments on any outstanding Covered Bonds (see “*Features of the Covered Bond Programme – Covered Bond Tests – Portfolio Yield Test*” for more detail).

The breach of any of the Covered Bond Coverage Tests (unless remedied within the period specified) will result in the service of a Notice to Pay and the Asset Segregation process referred to above. See “*The Mortgage Portfolio – Removal of Mortgages – Asset Segregation Event*”.

Other tests in relation to the Cover Pool include the Amortisation Test and (in the case of Hard Bullet Covered Bonds) the Pre-Maturity Test, as described in “*Features of the Covered Bond Programme – Covered Bond Tests*”.

Cashflows

The effect of the priorities of payments is that interest and principal collections received from the Mortgage Portfolio in respect of a Collection Period will be paid as follows:

- (i) an amount equal to the HSBC Share Percentage of interest collections (net of payments of certain LLP expenses) will be paid into the Covered Bond Account, with the remainder being paid to the RMBS Member;
- (ii) prior to the occurrence of a Trigger Event, principal collections will be paid to the RMBS Member to the extent required to repay or accumulate for the repayment of RMBS (to the extent of the RMBS Share), with the remainder (to the extent of the Covered Bond Entitlement) being paid into the Covered Bond Account; and
- (iii) following the occurrence of a Trigger Event, the Covered Bond Entitlement Percentage of principal collections will be paid into the Covered Bond Account, with the remainder (to the extent of the RMBS Share) being paid to the RMBS Member.

Please see “*Transaction Cashflows*” for more information on the Priorities of Payments.

All collections (whether of interest, principal or otherwise) from the Additional Covered Bond Collateral Portfolio will be paid into the Covered Bond Account.

Amounts in the Covered Bond Account will be paid as follows on each Distribution Date:

- (i) prior to the delivery of a Notice to Pay, in accordance with the Pre-Notice to Pay Priority of Payments;
- (ii) following delivery of a Notice to Pay, but prior to the delivery of a Guarantee Acceleration Notice, in accordance with the Guarantee Priority of Payments; and
- (iii) following delivery of a Guarantee Acceleration Notice, in accordance with the Covered Bond Post-Enforcement Priority of Payments.

THE RMBS PROGRAMME

The RMBS Member may establish a note issuance programme (the “**RMBS Programme**”) and may issue notes in the form of residential mortgage-backed securities (“**RMBS**”) from time to time under that programme. Any RMBS so issued will be backed solely by the assets of the RMBS Member (principally the RMBS Share in the Mortgage Portfolio) and will not be obligations of, or guaranteed by, the LLP or the Issuer. Holders of RMBS will have no recourse to the Cover Pool.

If an RMBS Programme is established, the RMBS Member will prepare a separate base prospectus in respect of that programme. Potential investors in RMBS are accordingly reminded that this Base Prospectus relates solely to the Covered Bond Programme and should not be relied upon in the context of any such RMBS Programme or any RMBS issued under it.

PARTIES

Arranger:	HSBC Bank plc, a company incorporated with limited liability in England and Wales (registered no. 14259) (“ HSBC ” and, in its capacity as arranger of the Covered Bond Programme, the “ Arranger ”).
Dealers:	HSBC and any other dealer appointed from time to time by the Issuer either generally in respect to the Covered Bond Programme or in relation to a particular Series of Covered Bonds in accordance with the terms of the Programme Agreement (the “ Dealers ”).
Sponsor:	HSBC.
Issuer:	HSBC (in its capacity as issuer of the Covered Bonds, the “ Issuer ”). For a more detailed description of the Issuer, see “ <i>HSBC Bank plc (The Issuer)</i> ”.
The LLP:	HSBC Mortgage Limited Liability Partnership, a limited liability partnership incorporated under the laws of England and Wales on 4 September 2006 with registration number OC322136, having its registered office at 8 Canada Square, London E14 5HQ (the “ LLP ”). The LLP is a subsidiary of the Seller and its Members on the Programme Establishment Date are the Seller, the RMBS Member and the Liquidation Member. For a more detailed description of the LLP, see “ <i>The LLP</i> ”.
Seller:	HSBC (in its capacity as assignor of Mortgages and certain other Qualifying Additional Collateral to the LLP and as a Member of the LLP, the “ Seller ”). For a more detailed description of the Seller, see “ <i>HSBC Bank plc (The Issuer)</i> ”.
RMBS Member:	Halphen Mortgage Backed Securities PLC (the “ RMBS Member ”), a public company with limited liability incorporated under the laws of England and Wales on 6 April 2006, with company number 5771763, having its registered office at 35 Great St. Helen’s, London EC3A 6AP (see “ <i>The RMBS Member</i> ”).
Liquidation Member:	Halphen Liquidation Member Limited, a special purpose vehicle incorporated in England and Wales on 6 April 2006 as a private limited company with company number 5771776, having its registered office at 35 Great St. Helen’s, London EC3A 6AP (the “ Liquidation Member ”). The Liquidation Member is 80 per cent owned by Jersey Holdings and 20 per cent owned by HSBC (see “ <i>The Liquidation Member</i> ”).
Jersey Holdings:	Halphen Holdings (Jersey) Limited (“ Jersey Holdings ”), a private company with limited liability incorporated under the laws of Jersey on 13 June 2006 with company number 93727, having its registered office at 26 New Street, St. Helier, Jersey JE2 3RA.
Jersey Share Trustee:	Bedell Trustees Limited of 26 New Street, St. Helier, Jersey JE2 3RA (the “ Jersey Share Trustee ”).
Bond Trustee:	Law Debenture Trust Company of New York, whose principal place of business is at 31st floor, 767 Third Avenue, New York, New York 10017 has been appointed to act as bond trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the terms of the Trust Deed (in such capacity, the “ Bond Trustee ”).
LLP Security Trustee:	Law Debenture Trust Company of New York will be the security trustee with respect to the LLP (in such capacity, the “ LLP Security Trustee ”) pursuant to the terms of a security trust deed entered into on the Initial Contribution Date (the “ LLP Security Deed ”) between, <i>inter alios</i> , the LLP and the LLP Security Trustee. The LLP Security Trustee will hold the security created by the LLP

pursuant to the terms of the LLP Security Deed (as supplemented by a supplemental LLP Security Deed, or a deed of accession dated on or about each Issue Date) on trust for the LLP Secured Creditors and will be entitled to enforce the security granted in its favour under the terms of the LLP Security Deed (see “*Features of the Covered Bond Programme – Security granted by the LLP*”). The “**LLP Secured Creditors**” will consist of, among others, the Bond Trustee on behalf of the Covered Bondholders, the Seller, the RMBS Member, the Swap Providers and the Backing Swap Provider.

- Asset Monitor:** KPMG Audit plc, having its registered office at 8 Salisbury Square, London EC4Y 8BB has been appointed pursuant to the Asset Monitor Agreement as an independent monitor (in such capacity, the “**Asset Monitor**”) to perform tests in respect of the Asset Coverage Test, the Portfolio Yield Test, and the Amortisation Test when required.
- Servicer:** HSBC will be the servicer (in such capacity, the “**Servicer**”) of the Cover Pool pursuant to the terms of a Servicing Agreement entered into on the Initial Contribution Date (the “**Servicing Agreement**”) between, *inter alios*, the Servicer and the LLP. Pursuant to the terms of the Servicing Agreement, the Servicer will agree to perform certain administrative functions in respect of the Mortgages held by the LLP, including collecting payments under such Mortgages and taking steps to recover arrears.
- LLP Cash Manager:** HSBC will be the cash manager to the LLP (in such capacity, the “**LLP Cash Manager**”) pursuant to the terms of a cash management agreement entered into on the Initial Contribution Date (the “**LLP Cash Management Agreement**”) between, *inter alios*, the LLP Cash Manager, the LLP and the Seller. The LLP Cash Manager will manage the bank accounts of the LLP, calculate the HSBC Share, the RMBS Share, the Covered Bond Entitlement and the Minimum Seller Entitlement, determine the amounts of and arrange the payments to be made by the LLP and keep certain records on its behalf.
- UK Corporate Services Provider:** Structured Finance Management Limited will be the corporate services provider to the Liquidation Member (in such capacity, the “**LM Corporate Services Provider**”) and the RMBS Member (in such capacity, the “**RMBS Member Corporate Services Provider**”) pursuant to the terms of a corporate services agreement to be entered into by the Liquidation Member on the Initial Contribution Date and pursuant to the terms of a corporate services agreement to be entered into by the RMBS Member on the Initial Contribution Date, respectively.
- Jersey Corporate Services Provider:** Bedell Trust Company Limited will be the corporate services provider to Jersey Holdings (in such capacity, the “**Jersey Holdings Corporate Services Provider**”) pursuant to the terms of a corporate services agreement entered into by Jersey Holdings on the Initial Contribution Date.
- LLP Account Bank:** HSBC will be the account bank to the LLP (in such capacity, the “**LLP Account Bank**”) pursuant to the terms of an account bank agreement entered into on the Initial Contribution Date (the “**LLP Account Bank Agreement**”) between the LLP, the LLP Cash Manager and the LLP Account Bank. Pursuant to the terms of the LLP Account Bank Agreement, the LLP Account Bank provides certain banking services to the LLP in relation to the LLP Accounts.

Covered Bond Swap Providers:	Each swap provider which agrees to act as swap provider to the LLP to hedge certain currency and/or other risks in respect of amounts received by the LLP under the Cover Pool and certain amounts which it is required to pay in respect of the Covered Bond Guarantee (the “ Covered Bond Swap Providers ”).
Covered Bond Basis Swap Provider:	HSBC (in such capacity, the “ Covered Bond Basis Swap Provider ”) has agreed to act as swap provider to the LLP to hedge possible variances between one month sterling LIBOR and the interest collections that the LLP will receive from the Cover Pool Mortgages.
Principal Paying Agent:	HSBC will be the principal paying agent (in such capacity, the “ Principal Paying Agent ” and, together with any other person appointed as a paying agent in accordance with and pursuant to the terms of the Agency Agreement, the “ Paying Agents ”) pursuant to the terms of an agency agreement to be dated on or about the Programme Establishment Date (the “ Agency Agreement ”) between, <i>inter alios</i> , the Issuer, the Bond Trustee, the Agent Bank and the Principal Paying Agent. Pursuant to the terms of the Agency Agreement, the Paying Agents will make payments of principal and interest on the Covered Bonds on behalf of the Issuer.
Agent Bank:	HSBC will be the agent bank (in such capacity, the “ Agent Bank ”) pursuant to the terms of the Agency Agreement. The Agent Bank will calculate the interest rates applicable to each Series of Covered Bonds in accordance with the terms and conditions of such Covered Bonds.
Registrars:	HSBC and HSBC Bank USA, National Association will, in respect of Covered Bonds in registered form, be the Registrars (in such capacity, the “ Registrars ”) pursuant to the terms of the Agency Agreement. The Registrars will maintain the register of Covered Bondholders and their respective interests in relation to each Series of Covered Bonds in accordance with the provisions of the Agency Agreement.
Common Depositary, Common Safekeeper and Common Service Provider:	<p>Global Certificates in respect of Covered Bonds issued in bearer form will be deposited with Euroclear and Clearstream, Luxembourg (the “International Central Securities Depositories”) or an agent of the International Central Securities Depositories, (the “Common Safekeeper”), which will act as the common safekeeper of such Covered Bonds.</p> <p>An agent of the International Central Securities Depositories will act as common service provider (in such capacity, the “Common Service Provider”) for the International Central Securities Depositories in respect of such Covered Bonds.</p> <p>Global Certificates in respect of Covered Bonds issued in registered form will be deposited with an agent of the International Central Securities Depositories (in such capacity, the “Common Depositary”), which will act as the common depositary for Euroclear and Clearstream, Luxembourg in respect of such Covered Bonds.</p> <p>Covered Bonds represented by global certificates in fully registered form under Rule 144A under the Securities Act will be registered in the name of Cede & Co., as nominee of The Depository Trust and Clearing Corporation (“DTCC”) and deposited upon issue with HSBC Bank USA, National Association, as custodian (the “DTCC Custodian”) for Cede & Co.</p>

Covered Bonds represented by global certificates in fully registered form under Regulation S may also be registered in the name of Cede & Co. as nominee of and deposited upon issue with a custodian for, DTCC for the respective accounts of Euroclear and Clearstream, Luxembourg.

Listing Authority and Stock Exchange:

UK Listing Authority and the London Stock Exchange.

Rating Agencies:

Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Limited ("**Fitch**" and, together with S&P and Moody's, the "**Rating Agencies**").

THE COVERED BONDS

Issued in Series:

The Covered Bonds will be issued in Series. Covered Bonds of the same Series which are issued on the same Issue Date will form a single Tranche and will be identical in all respects (including as to listing). A Tranche of Covered Bonds, together with any further Tranche or Tranches which are expressed to be consolidated to form a single Series and which have identical terms (except for their respective Issue Dates, Issue Prices and Interest Commencement Dates) shall form a single Series and shall be fully fungible with each other. More than one Series of Covered Bonds may be issued on the same Issue Date. There will be no separate classes of Covered Bonds.

Certain Restrictions:

Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*").

Programme Size:

Up to €15 billion (or its equivalent in other currencies) outstanding at any time as described herein. The Issuer may increase the amount of the Covered Bond Programme in accordance with the terms of the Programme Agreement.

Distribution:

Covered Bonds may be distributed outside the United States to persons other than US persons (as such terms are defined in Regulation S under the Securities Act) by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in "*Subscription and Sale*".

Covered Bonds may also be distributed in reliance on Rule 144A to persons that are both QIBs and Qualified Purchasers by way of private placement, subject to the restrictions set forth in "*Subscription and Sale*".

Specified Currencies:

Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s), the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).

Redenomination:

The applicable Final Terms may provide that certain Covered Bonds may be redenominated in Euro. If so, the redenomination provisions will be set out in the applicable Final Terms.

Maturities:

Such maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

- Issue Price:** Covered Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Form of Covered Bonds:** The Covered Bonds may be issued in registered form or bearer form – see “*Form of the Covered Bonds*”.
- Each Global Covered Bond in registered form will be deposited on or around the relevant Issue Date with a common depository for Euroclear and/or Clearstream, Luxembourg or a depository for DTCC and/or any other relevant clearing system.
- Each Temporary Global Covered Bond will be exchangeable for a Permanent Global Covered Bond or, if so specified in the relevant Final Terms, for Definitive Covered Bonds.
- Each Global Covered Bond in bearer form will be issued in new global note form, as specified in the relevant Final Terms, and will be deposited on or around the relevant Issue Date with a common safekeeper for the International Central Securities Depositories.
- Fixed Rate Covered Bonds:** Fixed Rate Covered Bonds will bear interest at the applicable fixed rate or rates per annum specified in the relevant Final Terms (each a “**Rate of Interest**”) from the date specified in the relevant Final Terms as the interest commencement date. Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of a Day Count Fraction as set out in Condition 3(a) (*Interest on Fixed Rate Covered Bonds*), or such other Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (in each case, as set out in the applicable Final Terms).
- Floating Rate Covered Bonds:** Floating Rate Covered Bonds will bear interest at the applicable rate determined either:
- (a) on the basis of a reference rate appearing on the Reuters Screen, Moneyline Telerate or another screen page of an information vending service at a time as set out in the Final Terms, plus or minus (as applicable) a margin (if any); or
 - (b) if such screen or other information vending service does not contain an appropriate page in respect of the specified currency, or if fewer than two of the Relevant Rates appear at such time (other than where such Relevant Rate is a composite quotation or rate or is customarily supplied by one entity), or if the rates which appear as at such time do not apply to a period of a duration equal to the relevant Interest Period, on the basis of the Fallback Rate plus or minus (as applicable), a margin.
- The “**Fallback Rate**” will be determined on the basis of the arithmetic mean of quotations obtained from:
- (a) where the specified currency is Euro, major banks in the Euro-zone interbank market, of the rate at which deposits in Euro are offered to prime banks in the Euro-zone interbank market; and
 - (b) where the specified currency is any other currency, major banks in the London interbank market, of the rate at which deposits in the specified currency are offered to prime banks in the London interbank market,
- on the Interest Determination Date and for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time.

The margin (if any) relating to such floating rate will be set out in the applicable Final Terms for each Series of Floating Rate Covered Bonds.

Inflation-Linked Covered Bonds:

Payments of principal in respect of Inflation-Linked Redemption Covered Bonds or of interest in respect of Inflation-Linked Interest Covered Bonds will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).

Other provisions in relation to Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds:

Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

Other provisions in relation to Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds:

Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds may also have a maximum interest rate, a minimum interest rate or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

Partly Paid Covered Bonds:

Covered Bonds may be issued on a partly paid basis if so specified in the relevant Final Terms, and further or alternative terms applicable to Partly Paid Covered Bonds will be set out in the relevant Final Terms. Such terms may include the amount of each payment comprising the Issue Price, the date on which each payment is to be made, and the consequences of a failure to pay, and any right of the Issuer to forfeit the Covered Bonds and interest due on late payments.

Instalment Covered Bonds:

The applicable Final Terms may provide that Covered Bonds may be redeemable in two or more instalments of such amounts (“**Instalment Amounts**”) and on such dates (“**Instalment Dates**”) as are indicated in the applicable Final Terms. Definitive or Individual Covered Bonds repayable in Instalments have receipts for the payment of the Instalments of principal (other than the final Instalment) attached on issue, and references to “**Receipts**” and “**Receiptholders**” in the Conditions are only applicable to such Covered Bonds.

Interest will cease to accrue on each Instalment Covered Bond, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount.

Dual Currency Covered Bonds:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Covered Bonds and Dual Currency Redemption Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as set out in the applicable Final Terms).

Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds may be offered and sold at a discount to their nominal amount and will not bear interest except in the case of late payment, as described in Condition 5(k) (<i>Late Payment on Zero Coupon Covered Bonds</i>).
Redemption:	The applicable Final Terms relating to each Series of Covered Bonds will indicate either that the relevant Covered Bonds of such Series cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer upon giving notice to the Covered Bondholders, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).
Extendable Obligations under the Covered Bond Guarantee:	<p>The applicable Final Terms may also provide that the LLP's obligations under the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount of the applicable Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) shall be deferred until the Extended Final Maturity Date, provided that any amount representing the amount due on the Final Maturity Date as set out in the relevant Final Terms (the "Final Redemption Amount") due and remaining unpaid on the date falling three Business Days after the expiry of seven days from (and including) the Final Maturity Date of the relevant Series of Covered Bonds (the "Extension Determination Date") may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date. In such case, such deferral will occur automatically if the Issuer fails to pay the Final Redemption Amount of the relevant Series of Covered Bonds on their Final Maturity Date (subject to applicable grace periods) and if the Guaranteed Amounts equal to the Final Redemption Amount in respect of such Series of Covered Bonds are not paid in full by the Extension Determination Date (for example, because following service of a Notice to Pay on the LLP, the LLP has or will have insufficient moneys to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of the relevant Series of Covered Bonds after payment of higher ranking amounts and taking into account amounts ranking <i>pari passu</i> in the Guarantee Priority of Payments). To the extent that the LLP has received a Notice to Pay in sufficient time to pay in part the Final Redemption Amount and the LLP has sufficient funds available to make such payment in accordance with the Guarantee Priority of Payments, such partial repayment shall be made as described in Condition 4(g) (<i>Partial payment</i>).</p> <p>Interest will continue to accrue and be payable on any unpaid amount up to the Extended Final Maturity Date in accordance with Condition 4 (<i>Payments</i>). The LLP will make payments of Guaranteed Amounts constituting Scheduled Interest on each relevant Original Due for Payment Date and Extended Final Maturity Date.</p>
Hard Bullet Covered Bonds:	If no Extended Final Maturity Date is specified in the relevant Final Terms, the Final Redemption Amount in respect of a Series of Covered Bonds (" Hard Bullet Covered Bonds ") will be Due for Payment on the Final Maturity Date thereof.
Further Issues:	The Issuer may from time to time create and issue further Tranches of Covered Bonds of a Series so that such further Tranche or Tranches of Covered Bonds shall be consolidated and form a single

Series (and be fully fungible) with such Covered Bonds of that Series for the time being outstanding (see Condition 14 (*Further Issues*)).

- Denomination of Covered Bonds:** Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. The minimum denomination of the Covered Bonds will, however, be no less than €50,000 (or the equivalent thereof in the Specified Currency).
- Taxation:** All payments in respect of the Covered Bonds will be made without withholding or deduction for or on account of taxes imposed by any Tax Jurisdiction, subject as provided in Condition 6 (*Taxation*). In the event that any such withholding or deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 6 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 6 (*Taxation*).
- Cross Default:** Each Series of Covered Bonds will cross accelerate as against the LLP at the same time but will not otherwise contain a cross default provision.
- Status of the Covered Bonds:** The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (save for any applicable statutory provisions) at least equally with all other present and future, unsecured, and unsubordinated obligations of the Issuer, from time to time outstanding.
- Covered Bond Guarantee:** Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Notice to Pay has been served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon the service of a Guarantee Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the Cover Pool and recourse against the LLP is limited to the Cover Pool.
- Approval, Admission to Trading and Listing:** Application has been made to the Financial Services Authority to approve this document as a base prospectus. Application has also been made to the London Stock Exchange for Covered Bonds issued under the Covered Bond Programme after the date hereof to be admitted to trading on the London Stock Exchange's regulated market and to be listed on the London Stock Exchange. The Covered Bonds may also be listed, quoted and/or traded on or by such other or further competent listing authority(ies), stock exchange(s) and/or quoted system(s) as may be agreed between the Issuer and the relevant Dealer(s) in relation to each Series.

Unlisted Covered Bonds may also be issued.

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed, quoted and/or traded and, if so, on or by which competent listing authorit(y/ies) or stock exchange(s) and/or quotation system(s).

Governing Law:

The Covered Bonds will be governed by, and construed in accordance with, English law.

ERISA:

For a discussion of certain ERISA-related restrictions on ownership and transfer of the Covered Bonds, see “*ERISA Considerations*”.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of Covered Bonds of any Series in the United States, the United Kingdom, the Republic of Italy, and certain members of the EEA. Other restrictions may apply in connection with the offering and sale of a particular Series of Covered Bonds. See also in this regard “*Subscription and Sale*” and the Final Terms for any particular Series of Covered Bonds.

RISK FACTORS

This section describes the principal risk factors associated with an investment in the Covered Bonds. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the considerations set out below, before making any investment decision.

GENERAL INVESTMENT CONSIDERATIONS

Liability To Make Payments When Due On The Covered Bonds

The Issuer is liable to make payments when due on the Covered Bonds. The obligations of the Issuer under the Covered Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations. Consequently, any claim directly against the Issuer in respect of the Covered Bonds will not benefit from any security or other preferential arrangement granted by the Issuer.

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until the service on the LLP of a Notice to Pay. Failure by the LLP to pay amounts due under the Covered Bond Guarantee in respect of any Series would constitute an LLP Event of Default which would entitle the Bond Trustee to serve a Guarantee Acceleration Notice and accelerate the obligations of the LLP under the Covered Bond Guarantee and entitle the LLP Security Trustee to enforce the LLP Security.

Following service of an Issuer Acceleration Notice on the Issuer, the Bond Trustee will serve a Notice to Pay on the LLP. However, a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds will not automatically result in the service of an Issuer Acceleration Notice. In such event, the Bond Trustee may, but is not obliged to, serve an Issuer Acceleration Notice unless and until requested or directed by the relevant Series of Covered Bondholders then outstanding in accordance with Condition 8(a) (*Issuer Events of Default*).

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

Effect of Events of Default on Acceleration of Amounts due to Covered Bondholders

If an Issuer Event of Default occurs in respect of a Series and an Issuer Acceleration Notice is served on the Issuer, all Covered Bonds of that Series will accelerate against the Issuer but the obligations of the LLP under the Covered Bond Guarantee will not accelerate unless an LLP Event of Default has occurred and a Guarantee Acceleration Notice has been served on the LLP.

An LLP Event of Default does not constitute an Issuer Event of Default and will not cause any Series of Covered Bonds to accelerate at the same time as against the Issuer.

Absence of Secondary Market; Limited Liquidity

There is not, at present, an active and liquid secondary market for the Covered Bonds, and there can be no assurance that a secondary market for the Covered Bonds will develop. Even if a secondary market does develop, it may not continue for the life of the Covered Bonds or it may leave Covered Bondholders with illiquidity of investment. Illiquidity can have an adverse effect on the market value of the Covered Bonds. Any Series of the Covered Bonds may experience illiquidity, although generally illiquidity is more likely to occur in respect of Series that are especially sensitive to prepayment, credit or interest rate risk, or that have been structured to meet the investment requirements of limited categories of Covered Bondholders.

Ratings of the Covered Bonds

The ratings assigned to the Covered Bonds address:

- (i) the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date; and

- (ii) the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof or (b) if the Covered Bonds are subject to an Extended Final Maturity Date in accordance with the applicable Final Terms, on the Extended Final Maturity Date thereof.

The expected ratings of the Covered Bonds will be set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, *inter alia*, in the sole judgment of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may be reduced. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time.

Changes of law and/or regulatory, accounting and/or administrative practices

The structure of the issue of the Covered Bonds and the ratings which are to be assigned to them are based on English law, regulatory, accounting and administrative practice in effect as at the date of this Base Prospectus, and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of the United Kingdom HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory, accounting or administrative practice in the United Kingdom or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of the United Kingdom HM Revenue & Customs as applied in the United Kingdom after the date of this Base Prospectus.

The LLP Security Trustee's powers may affect the interests of the Covered Bondholders

In the exercise of its powers, trusts, authorities and discretions (other than in relation to any enforcement action, when the LLP Security Trustee shall only have regard to the interests of the Covered Bondholders in respect of the Cover Pool), the LLP Security Deed requires the LLP Security Trustee to consider the interests of each of the LLP Secured Creditors (other than the Seller). In the event that, with respect to the exercise of any of its powers, trusts, authorities or discretions (other than as aforesaid), the LLP Security Trustee determines in its absolute discretion that any of the LLP Secured Creditors (other than the Seller) would be materially prejudiced thereby, or any such LLP Secured Creditor (other than the Covered Bondholders) (acting reasonably) informs the LLP Security Trustee in writing that it would be materially prejudiced thereby, the LLP Security Trustee shall only exercise such power, trust, authority or discretion (as the case may be) in relation to the Cover Pool with the prior written consent of such LLP Secured Creditor(s) and provided that the LLP Security Trustee is satisfied that such exercise will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions (other than as aforesaid), the LLP Security Trustee may not act on behalf of the Seller.

The Bond Trustee and the LLP Security Trustee may agree to modifications to the LLP Transaction Documents without the Covered Bondholders' prior consent

Pursuant to the terms of the Trust Deed and the LLP Security Deed, the Bond Trustee and the LLP Security Trustee may, without the prior consent or sanction of any of the Covered Bondholders, concur with any person in making or sanctioning any modifications to the LLP Transaction Documents provided that either:

- (i) the Rating Condition will be met if such modifications are made; or
- (ii) in the opinion of the Bond Trustee and the LLP Security Trustee the modifications are made to correct a manifest error of a formal, minor or technical nature or are made to comply with mandatory provisions of law.

Subject to the foregoing, the Bond Trustee may exercise the powers, trusts, authorities or discretions that it may otherwise exercise without the consent of the Covered Bondholders if the Bond Trustee is of the opinion that the interests of the Covered Bondholders of any one or more Series would not be materially prejudiced thereby. If it is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Bond Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a written resolution of such Covered Bondholders of at least a clear majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding.

Certain decisions of Covered Bondholders taken at Programme level

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

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio. In this context a potential investor should be aware some Covered Bonds are complex financial investments and it should not invest unless it has appropriate expertise (either alone or with a financial advisor) to evaluate them;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets;
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) ensure that, in terms of any legislation or regulatory regime applicable to such investor, what restrictions (if any) there are on its ability to invest in Covered Bonds generally, and any particular type of Covered Bonds.

CONSIDERATIONS RELATING TO THE LLP

Limited Liability Partnerships

The law concerning limited liability partnerships created under the LLPA 2000, such as the LLP, is relatively undeveloped. Accordingly, there is a risk that, as the law develops, new case law or new regulations made under or affecting the LLPA 2000 or relating to limited liability partnerships could adversely affect the ability of the LLP to perform its obligations under the LLP Transaction Documents, which could, in turn, adversely affect the interests of Covered Bondholders.

Transfer of Mortgages following Asset Segregation Event

Following the occurrence of an Asset Segregation Event, Mortgages will be transferred out of the Mortgage Portfolio to the Additional Covered Bond Collateral Portfolio and the Covered Bond Entitlement will be reduced to zero.

Portfolio Mortgages will be selected for transfer by automated means on a random basis, however there can be no guarantee that the Mortgages transferred to the Additional Covered Bond Collateral Portfolio will perform as well as or better than those remaining in Mortgage Portfolio or have the same prepayment characteristics. The foregoing may result in delays in repayment of principal and/or losses in respect of interest and principal that would not have occurred if Asset Segregation had not occurred.

LLP only obliged to pay Guaranteed Amounts when they are Due for Payment

Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will only be obliged to pay Guaranteed Amounts as and when such amounts are Due for Payment. Such Guaranteed Amounts will be paid subject to and in accordance with the provisions of the Covered Bond Guarantee. In these circumstances the LLP will not be obliged to pay any other amounts in respect of the Covered Bonds which become payable for any other reason.

Payments by the LLP will be made subject to any applicable withholding or deduction and the LLP will not be obliged to pay any additional amounts as a consequence. Prior to service on the LLP of a

Guarantee Acceleration Notice, the LLP will not be obliged to make any payments in respect of broken funding indemnities, penalties, premiums, default interest or compound interest which may accrue on or in respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 6 (*Taxation*) as a result of a withholding or deduction for or on account of tax.

Following service of a Guarantee Acceleration Notice, the proceeds of enforcement of the LLP Security which relates to the Cover Pool will be applied by the LLP Security Trustee in accordance with the Covered Bond Post-Enforcement Priority of Payments, and Covered Bondholders may receive amounts from the LLP on an accelerated basis. As a result, the Covered Bonds may be repaid sooner or later than expected and there is a risk that the actual returns on the investment in the Covered Bonds may be less than would otherwise have been the case.

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

The LLP's ability to meet its obligations under the Covered Bond Guarantee will depend on the realisable value of the assets in the Cover Pool, the amount and timing of interest and principal receipts and/or sale proceeds from the assets in the Cover Pool, amounts received from the Swap Providers and the receipt by the LLP of interest on credit balances on, and the proceeds of Authorised Investments made from, the Covered Bond Account. The LLP will not have any other source of funds available to meet its obligations under the Covered Bond Guarantee and its obligations under the Covered Bond Guarantee will be limited to such sources of funds.

If an LLP Event of Default occurs and the LLP Security is enforced, the proceeds of enforcement may not be sufficient to meet, in full, the claims of the Covered Bondholders and of all LLP Secured Creditors ranking senior to the Covered Bondholders in the Covered Bond Post-Enforcement Priority of Payments. Covered Bondholders who do not receive all amounts due to them under the Covered Bonds may still have an unsecured claim against the Issuer for the shortfall, however, it is unlikely in such circumstances that the Issuer will have sufficient funds to pay that shortfall in full. If a Guarantee Acceleration Notice is served on the LLP then the Covered Bonds may be repaid sooner or later than expected or not at all.

The structure of the LLP Security will segregate the RMBS Share of the Mortgage Portfolio for the benefit of the RMBS Member. Covered Bondholders should be aware that the Bond Trustee will have no entitlement to any amounts distributable from the RMBS Share of the Mortgage Portfolio in respect of the enforcement of the LLP Security granted over it or otherwise.

None of the Covered Bond Coverage Tests, the Amortisation Test, or the Pre-Maturity Test (or any combination of the foregoing) can provide any assurance that the LLP will have sufficient assets in the Cover Pool to be able to pay all Guaranteed Amounts when Due for Payment. Covered Bondholders will have no recourse to the Issuer should any of the foregoing tests be breached. In addition, Covered Bondholders should be aware that failure by the Issuer to contribute sufficient Mortgages and other Qualifying Additional Collateral to the LLP may result in the LLP being unable, following service of a Notice to Pay, to pay all Guaranteed Amounts when Due for Payment.

RMBS Share and Minimum Seller Entitlement of HSBC Share not available to make payments under the Covered Bond Guarantee

Recourse to the LLP under the Covered Bond Guarantee will be limited to the Cover Pool. Consequently, Covered Bondholders will have no recourse to any amounts in respect of the RMBS Share and/or the Minimum Seller Entitlement of the HSBC Share in the Mortgage Portfolio.

Reliance of the LLP on third parties

The LLP has entered into agreements with a number of third parties, including the Servicer and the LLP Cash Manager, which have agreed to provide services to the LLP. In the event that any of these parties fails to perform its obligations to the LLP, the realisable value of the Cover Pool or any part thereof, and the ability of the LLP to pay Guaranteed Amounts when Due for Payment, may be adversely affected.

Failure by the Servicer to adequately administer the Cover Pool Mortgages may lead to higher incidences of non-payment or default by Borrowers, a reduction in the realisable value of Cover Pool Mortgages and failure to recover, from Borrowers, all amounts due under their Mortgages.

If a Servicer Termination Event occurs, there can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the LLP Mortgages (including the Cover Pool Mortgages) on the terms

of the Servicing Agreement. In addition, any substitute servicer will be required to be authorised under the FSMA to conduct mortgage administration business. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect the realisable value of the Cover Pool Mortgages or any part thereof, and/or the ability of the LLP to make payments under the Covered Bond Guarantee.

The Servicer has no obligation to advance payments if the Borrowers fail to make any payments in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by the Servicer under the Servicing Agreement.

Neither the LLP Security Trustee nor the Bond Trustee is obliged in any circumstances to act as the Servicer or to monitor the performance by the Servicer of its obligations. Neither the Bond Trustee nor the LLP Security Trustee will be responsible for monitoring compliance with, nor the monitoring of, the Covered Bond Coverage Tests or the Amortisation Test or any other tests or supervising the performance by any other party of its obligations under any LLP Transaction Document.

Reliance on Swap Providers

The LLP will receive interest collections from the Cover Pool Mortgages based on rates of interest which may differ from the rates of interest which the LLP may be liable to pay under the Covered Bond Guarantee. In addition, the Cover Pool Mortgages will be denominated in sterling and the LLP's obligations under the Covered Bond Guarantee may be denominated in other currencies. Consequently, in order to hedge its contingent interest rate and currency exposure in respect of the Covered Bonds, the LLP will enter into the Covered Bond Basis Swap and the Covered Bond Swaps.

If the LLP fails to make timely payments of amounts due under any Swap Agreement, then it will (unless otherwise stated in the relevant Swap Agreement) have defaulted under the relevant Swap Agreement. A Swap Provider is (unless otherwise stated in the relevant Swap Agreement) only obliged to make payments to the LLP as long as the LLP complies with its payment obligations under the relevant Swap Agreement. Any amounts not paid by the LLP to a Swap Provider may in such circumstances incur additional amounts of interest payable by the LLP, which would rank *pari passu* with amounts due on the Covered Bond Guarantee in respect of the Covered Bonds. If the Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the LLP on the payment date under the Swap Agreements, the LLP will be exposed to changes in the relevant currency exchange rates to Sterling and to any changes in the relevant rates of interest. At any time on or after the Programme Establishment Date, subject to the Rating Condition being met, the LLP may hedge only part of the possible variances between the rates of interest payable on the Cover Pool Mortgages and LIBOR for one-month sterling deposits. In all such circumstances the LLP will be exposed to any changes in the relevant rates of interest. Unless a full replacement swap is to be entered into, the LLP may have insufficient funds to make payments under the Covered Bond Guarantee.

If a Swap Agreement terminates, then the LLP may be obliged to make a termination payment to the relevant Swap Provider. There can be no assurance that the LLP will have sufficient funds available to make a termination payment under the relevant Swap Agreement, nor can there be any assurance that the LLP will be able to enter into a replacement swap agreement, or if one is to be entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by the Rating Agencies. In addition the swaps may provide that notwithstanding the swap counterparty ceasing to be assigned the requisite ratings and the failure by the swap counterparty to take the remedial action set out in the relevant swap agreement, the LLP may not terminate the swap until a replacement swap counterparty has been found. There can be no assurance that the LLP will be able to enter into a replacement swap agreement with a replacement swap counterparty with the requisite ratings.

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

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

With respect to any Covered Bond Swaps, the LLP will pay a monthly amount on each Distribution Date, to each Covered Bond Swap Provider by reference to LIBOR for one-month Sterling deposits. Each Covered Bond Swap Provider may not be obliged to make corresponding swap payments to the LLP under a Covered Bond Swap for up to 12 months or until amounts are due and payable by the LLP under the Covered Bond Guarantee (after the service of a Notice to Pay on the LLP). If a Covered Bond Swap Provider does not make a termination payment that has become due from it to the LLP, the LLP may have a larger shortfall in funds with which to make payments under the Covered Bond Guarantee with respect to the Covered Bonds than if the Covered Bond Swap Provider's payment obligations coincided with the LLP's payment obligations under the Covered Bond Guarantee. Hence, the difference in timing between the obligations of the LLP and the Covered Bond Swap Providers under the Covered Bond Swaps may affect the LLP's ability to make payments under the Covered Bond Guarantee with respect to the Covered Bonds.

RISKS RELATING TO TAXATION

Withholding Tax on Payments under the Covered Bond Guarantee

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Covered Bond Guarantee in respect of a Series of Covered Bonds (as to which, in relation to United Kingdom tax, see "*Other Covered Bondholder Considerations – Taxation*"), the LLP will not be required to make any additional payments to Covered Bondholders, or to otherwise compensate Covered Bondholders for the reduction in the amounts that they will receive as a result of such withholding or deduction.

INSOLVENCY CONSIDERATIONS RELATING TO THE LLP

Insolvency Act 2000

Significant changes to the United Kingdom insolvency regime have recently been enacted, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. The moratorium provisions apply to limited liability partnerships, subject to certain modifications.

Although the LLP could at a particular time be determined to meet the definition of a "small" company, it is expected to fall within one of the exceptions which would exempt it from the moratorium provisions. However, there is no guidance as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of Covered Bondholders. If the LLP is determined to be a "small" company and determined not to fall within one of these exceptions, then certain actions in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

Enterprise Act 2002

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (the "**Insolvency Act**") and from 1 October 2005, the Limited Liability Partnerships (Amendment) Regulations 2005 have applied certain of the new provisions to limited liability partnerships (such as the LLP) with certain modifications. One of the effects of the reforms is to restrict the right of the holder of a floating charge to appoint an administrative receiver (unless an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration).

The Insolvency Act, however, contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. These provisions will apply to the LLP as the Issuer is expected to incur a debt of at least £50,000,000 through the issue of a capital market investment. However, the Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Base Prospectus, will not be detrimental to the interests of the Covered Bondholders.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a “prescribed part” of the company’s “net property” available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. These provisions apply to the LLP as if it were a company. The company’s “net property” is defined as the amount of the chargor’s property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The “prescribed part” has subsequently been defined to be an amount equal to 50 per cent of the first £10,000 of floating charge realisations plus 20 per cent of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits.

Floating charge realisations upon the enforcement of the LLP Security may be reduced by the operation of these “ring fencing” provisions up to a maximum of £600,000.

Fixed charges may take effect under English law as Floating charges

Pursuant to the terms of the LLP Security Deed, the LLP will, among other things, purport to grant fixed charges in favour of the LLP Security Trustee to be held for the Bond Trustee (for the Covered Bondholders) in respect of the Cover Pool.

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

In addition, any administrative receiver, administrator or liquidator appointed in respect of the LLP will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the LLP Security Deed (as described in more detail above under “– *Enterprise Act 2002*”).

CERTAIN LEGAL AND OTHER RISKS

Pensions Act 2004

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

A contribution notice could be served on the LLP if it was party to an act, or a deliberate failure to act, the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

A financial support direction could be served on the LLP where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is less than 50 per cent of the pension scheme’s deficit calculated on an annuity buy-out

basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

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

European Monetary Union

It is possible that, prior to the repayment in full of a Series of Covered Bonds, the United Kingdom may become a participating member state in the European Economic and Monetary Union and that the Euro will become the lawful currency of the United Kingdom. In that event, (a) all amounts payable in respect of any Covered Bonds denominated in pounds sterling may become payable in Euro; (b) applicable provisions of law may allow or require the Issuer to re-denominate the relevant Covered Bonds into Euro and take additional measures in respect of such Covered Bonds; and (c) the introduction of the Euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on such Covered Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment that could adversely affect a Borrower's ability to repay its mortgage as well as adversely affect Covered Bondholders. It cannot be said with certainty what effect adoption of the Euro by the United Kingdom (if it occurs) will have on Covered Bondholders.

Proposed changes to the Basel Capital Accord

The Basel Committee on Banking Supervision published the text of a new framework on 26 June 2004 under the title "*Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework*" (the "**Framework**"). It is currently envisaged that the various approaches under the Framework will be implemented in stages, some from year-end 2006 and the most advanced at year-end 2007. Implementation of the Framework (including through the Capital Regulatory Directive for financial institutions and firms and by domestic regulators in home jurisdictions) could affect certain investors if those investors are regulated in a manner which will be affected by the proposals. Consequently, prospective investors should consult their own advisers as to the consequences for and effect on them of the proposed implementation of the new Framework.

The Issuer cannot predict the precise effects of potential changes that might result from such implementation of the Framework whether under the Capital Requirements Directive, domestic regulations or otherwise.

Exchange of the Covered Bonds following any Covered Bond legislation coming into force in the United Kingdom

The Conditions of the Covered Bonds permit the Issuer to exchange, without the consent of the Bond Trustee, the LLP Security Trustee or the Covered Bondholders, any existing Covered Bonds then outstanding for new Covered Bonds following the coming into force in the United Kingdom of any legislation similar to covered bond legislation in force in any other European Union country or any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by United Kingdom issuers to qualify for the same benefits available pursuant to covered bond legislation in force in any other European Union country provided that, *inter alia*, each of the Rating Agencies then rating the existing Covered Bonds confirms in writing that any such new Covered Bonds will be assigned the same ratings as are then applicable to the existing Covered Bonds. Any such new Covered Bonds will qualify as covered bonds under such new legislation, rules, regulations or guidelines and will be in identical form, amounts and denominations and will be subject to the same economic terms and conditions as the existing Covered Bonds then outstanding. Nevertheless, Covered Bondholders could, if an exchange occurs hold different Covered Bonds than the Covered Bonds in which they originally invested.

SERIES SPECIFIC RISKS

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

Fixed/Floating Rate Covered Bonds

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

Extendable obligations under the Covered Bond Guarantee

Failure by the LLP to make payment in respect of the Final Redemption Amount on the Final Maturity Date (subject to any applicable grace period) in respect of a Series of Covered Bonds with an Extended Final Maturity Date shall not constitute an LLP Event of Default in respect of such Series. However, failure by the LLP to pay the Guaranteed Amounts corresponding to the Final Redemption Amount, or the balance thereof, on or prior to the Extended Final Maturity Date and/or Guaranteed Amounts constituting Scheduled Interest when Due for Payment will (subject to any applicable grace periods) be an LLP Event of Default. This may mean Covered Bondholders of the relevant Series may suffer losses resulting from a delay in enforcing the LLP Security between the Final Maturity Date and the Extended Final Maturity Date.

Furthermore, in relation to all Guaranteed Amounts constituting Scheduled Interest up to (and including) the Extended Final Maturity Date, as provided in the relevant Final Terms, the LLP may pay such Scheduled Interest pursuant to the floating rate set out in the applicable Final Terms, notwithstanding that the relevant Covered Bond was a Fixed Rate Covered Bond as at its relevant Issue Date. This may mean Covered Bondholders of the relevant Series suffer losses in their investments resulting from the different interest bases applicable.

Inflation-Linked Covered Bonds and Dual Currency Covered Bonds

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

- (i) the market price of such Covered Bonds may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency from that expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Covered Bonds

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

Covered Bonds subject to optional redemption by the Issuer

An optional redemption feature of Covered Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered

Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

Covered Bonds issued at a substantial discount or premium

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

RISK FACTORS RELATING TO THE COVER POOL

Changes in the characteristics of the Cover Pool Mortgages

The characteristics of the Cover Pool Mortgages may change over time as a result of how the Seller manages its Mortgage business and the resulting behaviour of Borrowers. In particular, prospective investors should note the following:

- (i) the Seller is permitted to solicit Borrowers to encourage them to refinance a Cover Pool Mortgage with another loan product which the Seller does not (or cannot) transfer into the Cover Pool;
- (ii) the Seller is permitted to make Further Advances in respect of Cover Pool Mortgages which may result in either the characteristics of the relevant Mortgage changing (including as a result of higher loan to value ratios and/or income multiples) or the removal of the relevant Mortgage from the Cover Pool;
- (iii) the Seller is permitted to add Mortgages to the Cover Pool which were acquired by it or were originated or acquired by one of its affiliates and in such case the Mortgages so added may have been originated under lending criteria materially different from those of the Seller; and
- (iv) the Seller retains the right to revise its Lending Criteria from time to time so that Mortgages originated by the Seller after the Programme Establishment Date and added to the Cover Pool may be originated under lending criteria different from those disclosed in this Base Prospectus.

Such changes in the characteristics of the Cover Pool Mortgages may adversely affect the average credit quality, yield, payment rate and other characteristics of the Cover Pool Mortgages, which may result in the LLP breaching the Covered Bond Coverage Tests. Moreover, changes that affect the credit quality of the Cover Pool Mortgages may lead to increased defaults by Borrowers and may affect the realisable value of the Cover Pool, or part thereof, and the ability of the LLP to make payments under the Covered Bond Guarantee.

Competition in the UK Mortgage Industry

The mortgage industry in the United Kingdom is highly competitive. Both traditional and new lenders use heavy advertising, targeted marketing, aggressive pricing competition and loyalty schemes in an effort to expand their presence in or to facilitate their entry into the market and compete for customers. For example, certain of the Seller's competitors have implemented aggressive pricing policies (via discount mortgages, fixed rate and tracker style mortgages) to attract borrowers to re-mortgage with such lender.

This competitive environment may affect the rate at which the Seller originates new Mortgages and may also affect the level of attrition of the Seller's existing Borrowers, which could result in a breach of the Covered Bond Coverage Tests.

Value of the Cover Pool Mortgages and Payments on Mortgages

The value of the properties securing the Cover Pool Mortgages may decrease as a result of any number of factors, including the national or international economic climate, regional economic or housing conditions, changes in tax laws, mortgage interest rates, inflation, the availability of financing, yields on alternative investments, increasing utility costs and other day to day expenses, political developments and government policies.

The same factors, along with other factors in Borrowers' personal or financial circumstances such as loss of earnings, illness and divorce, may lead to an increase in delinquencies by, and bankruptcies of, Borrowers, and could adversely affect prepayment rates, repossession frequency and the ultimate ability of Borrowers to make payments of interest and principal on the Cover Pool Mortgages.

The following factors may influence the value of the Cover Pool Mortgages and the making of payments by Borrowers on Mortgages:

- (i) the Cover Pool Mortgages are not evenly distributed across the UK. Therefore, the occurrence of any of the circumstances mentioned in the preceding paragraph in a region with a higher concentration of the Cover Pool Mortgages may exacerbate the risks described in the previous section. Neither the Issuer nor the LLP can predict when or where such regional economic declines may occur nor to what extent or for how long such conditions may continue.
- (ii) since the mid 1990s, the United Kingdom has generally benefited from a relatively benign economic climate, and Borrowers (and in particular first-time Borrowers) with Cover Pool Mortgages may not yet have experienced a more adverse economic climate. The arrears and default history of the Seller is, in part, reflective of the recent economic climate.

In addition, the ability of a Borrower to sell the Mortgaged Property relating to the relevant Cover Pool Mortgage at a price sufficient to repay the amounts outstanding under such Mortgage will depend upon a number of factors, including the availability of buyers for that property, the value of the property and property values and the property market in general at the time of such proposed sale.

Sale of Selected Collateral following the service of a Notice to Pay

If a Notice to Pay is served on the LLP, then the LLP will be obliged to sell, subject to a right of pre-emption enjoyed by the Seller pursuant to the terms of the Mortgage Transfer Deed, Selected Collateral, including Mortgages, from the Cover Pool in order to make payments to the LLP's creditors including making payments under the Covered Bond Guarantee, see "*Features of the Covered Bond Programme – Sale of Selected Collateral following a Notice to Pay*".

There is no guarantee that a buyer will be found to acquire Selected Collateral at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained for such Selected Collateral, which may affect payments under the Covered Bond Guarantee. However, the Selected Collateral may not be sold by the LLP for less than an amount equal to the Adjusted Required Redemption Amount for the relevant Series of Covered Bonds until six months prior to the Final Maturity Date in respect of such Covered Bonds or (if specified as applicable in the relevant Final Terms) the Extended Final Maturity Date under the Covered Bond Guarantee in respect of such Covered Bonds. In the six months prior to, as applicable, the Final Maturity Date or Extended Final Maturity Date, the LLP is obliged to sell the Selected Collateral for the best price reasonably available notwithstanding that such price may be less than the Adjusted Required Redemption Amount.

The factors that may affect the realisable value of Cover Pool Mortgages or the Additional Collateral or any part thereof (which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee) include:

- (i) representations or warranties not being given by the LLP or (unless otherwise agreed with the Seller) the Seller in respect of the Mortgages or other Additional Collateral;
- (ii) default by Borrowers of amounts due on their Mortgages or by the counterparties in respect of other Additional Collateral;
- (iii) changes to the lending criteria of the Seller;
- (iv) set-off risks in relation to some types of Cover Pool Mortgages;
- (v) limited recourse to the Seller;
- (vi) possible regulatory changes by the Office of Fair Trading, the Financial Services Authority (the "FSA") and other regulatory authorities; and
- (vii) regulations in the United Kingdom that could lead to some terms of the Mortgages being unenforceable.

The LLP may only give warranties or indemnities in respect of a sale of Selected Collateral in very limited circumstances, for example where the giving of such warranties or indemnities would materially affect the realisable price of the Selected Collateral being sold. In addition, there is no

assurance that the Seller would give any warranties or representations in respect of the Selected Collateral. Any representations or warranties previously given by the Seller in respect of the Cover Pool Mortgages may not have value for a third party purchaser if the Seller is then insolvent.

Risks relating to Interest Only Mortgages

The ability of a Borrower to repay the principal on an Interest Only Mortgage at maturity depends on: (i) such Borrower ensuring that sufficient funds will be available from an investment plan (for example, individual savings accounts, pension policies, personal equity plans or endowment policies); (ii) the financial condition of the Borrower; (iii) tax laws during the term of the Mortgage and on its maturity; and (iv) general economic conditions at the time. There can be no assurance that there will be sufficient funds from any investment plan of the Borrower to repay the principal that such investment plan is designed to cover.

The Seller does not (and in certain circumstances cannot) take security over the investment plans of a Borrower. Consequently, in the case of a Borrower in poor financial condition any investment plan of the Borrower will be an asset available to meet the claims of other creditors. Further, the Seller does not take security over any term life insurance policy taken out by the relevant Borrower.

In the case of Interest Only Mortgages in the Cover Pool, there can be no assurance that the Borrower will have the funds required to repay the principal amount due at the end of the term. This may adversely affect the ability of the LLP to pay Guaranteed Amounts which are Due for Payment.

Seller initially to retain legal title to the Mortgages

The assignment of the English Mortgages and Northern Irish Mortgages to the LLP (until the transfer of legal title) takes effect in equity only. The assignment of the Scottish Mortgages to the LLP will be effected by declarations of trust by the Seller (the “**Scottish Declaration of Trust**”). In each case, this means that legal title to the Cover Pool Mortgages will remain with the Seller until certain additional steps are completed, including notification of the assignment or assignment (as the case may be) to the relevant Borrowers and either, in the case of English or Northern Irish Mortgages, registration of the transfer of the English or Northern Irish Mortgage at the relevant land registry or deeds office (in the case of English or Northern Irish registered Mortgages) or conveyance of the relevant English or Northern Irish Mortgage in favour of the LLP (in the case of English or Northern Irish unregistered Mortgages), or in the case of Scottish Mortgages, the registration or recording (as appropriate) of the transfer of the Scottish Mortgages at the Registers of Scotland.

The following risks result from the LLP having only beneficial title to the Cover Pool Mortgages, each of which may impair the ability of the LLP to make payments of Guaranteed Amounts:

- (i) *first*, if the Seller incorrectly sells a Cover Pool Mortgage to another person, the buyer might obtain good title to that Mortgage free from the interests of the LLP. This may impair the ability of the LLP to collect interest and principal from the Borrower under the relevant Mortgage; and
- (ii) *second*, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as the rights of set-off which occur in relation to transactions or deposits made between some Borrowers and the Seller and the rights of Borrowers to redeem their Mortgages by repaying the loan directly to the Seller. If these rights were exercised, the LLP may receive less money than anticipated from the Cover Pool Mortgages.

Prospective investors should note that set-off rights arising under claims arising out of a transaction connected with a Cover Pool Mortgage (including those described in “– *Set off and other Dilution Risks in relation to Mortgages*”) prior to the giving of a notice to Borrowers that Cover Pool Mortgages have been transferred to the LLP will not be affected by such notice being given.

Set-off and other Dilution Risks in relation to Mortgages

As described in “– *Seller initially to retain legal title to the Mortgages*”, the rights of set-off existing prior to notification to the Borrowers of the assignment of the Mortgages to the LLP will not be affected by such notice being given.

The Borrowers may also claim set-off rights beyond those permitted by law. In such a case, while the Servicer may be entitled to take enforcement proceedings against such a Borrower, the period of non-payment by the Borrower is likely to continue until a judgment or decree is obtained.

Furthermore:

- (i) a Borrower may seek to argue that certain Further Advances are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974; or
- (ii) certain Further Advances may rank behind liens created by a Borrower after the date upon which the Borrower entered into its Mortgage with the Seller.

Losses in respect of Portfolio Mortgages caused by the foregoing will initially be applied to the HSBC Share only and will reduce the Covered Bond Entitlement. All losses caused by the foregoing in respect of Additional Collateral Mortgages will reduce the partnership interest of the Seller in the Additional Covered Bond Collateral Portfolio.

If the level of losses in respect of the Cover Pool is high then there is a risk that the Covered Bond Coverage Tests will be breached.

Cover Pool Mortgages with Further Advances beneficially owned by the Seller

One or more Further Advances in respect of a Portfolio Mortgage may be re-assigned by the LLP to the Seller following the occurrence of the events set out in “*The Cover Pool – Removal of Mortgages – Certain Events Following Further Advances*” while one or more other advances in respect of that Mortgage remain in the Mortgage Portfolio.

In such circumstances, prior to enforcement in respect of the relevant Mortgaged Property, it is possible that the Seller will receive payments of interest and principal in respect of those advances which it beneficially owns, notwithstanding that no payments are received by the LLP in respect of those advances in respect of the same Mortgaged Property which the LLP beneficially owns (see “*Servicing of the LLP Mortgages – Monthly Payments*”). This may result in Further Advances owned by the Seller being paid as to principal and interest prior to advances on Portfolio Mortgages and this may delay or reduce payments made to the LLP. The Seller and the LLP have entered into the Deed of Postponement whereby, following enforcement in respect of the relevant Mortgaged Property, to the extent permitted the LLP will receive the proceeds of enforcement in respect of its Portfolio Mortgage in priority to the Seller in respect of its Further Advance. Prospective Investors should be aware that Borrowers may seek to appropriate payments made during the course of enforcement proceedings to certain advances and to the extent they are permitted to make such appropriation, this could lead to payments being appropriated first to amounts due to the Seller before payments are made in respect of amounts due to the LLP.

Searches and investigations in relation to the Cover Pool

None of the Issuer, the Bond Trustee, the LLP or the LLP Security Trustee has or will undertake any investigations, searches or other any other actions on any Cover Pool Mortgages or any Additional Collateral (other than Mortgages) and each of them will instead rely on the Seller’s representations and warranties to the LLP under the Mortgage Transfer Deed in respect of the Mortgages and any Additional Collateral Transfer Deed in respect of any Additional Collateral (other than Mortgages).

Indemnification of LLP as mortgagee in possession

In order to enforce a power of sale in respect of a Mortgaged Property, the relevant mortgagee (which may be HSBC, the LLP or any receiver appointed by the LLP Security Trustee) must first obtain possession of the Mortgaged Property unless the property is vacant. Possession is usually obtained by way of a court order, although this can be a lengthy process and the mortgagee must assume certain risks.

The LLP (and, pursuant to the LLP Security Deed, the LLP Security Trustee and any receiver appointed by it) has the benefit of certain rights, title and interests to which the Seller is entitled under the buildings policies and the properties in possession cover against personal liabilities which it could incur if it were to become a mortgagee in possession before it is obliged to seek possession. The LLP Security Trustee is never obliged to enter into possession of any Mortgaged Property.

Buildings Insurance

The practice of the Seller in relation to buildings insurance is described under “*HSBC Bank plc’s Mortgage Business – Insurance*”. The Issuer cannot provide any assurance that the LLP will always receive the benefit of any claims made under any applicable insurance contracts or that the amount received in the case of a successful claim will be sufficient to reinstate the Mortgaged Property. This could adversely affect the ability of the LLP to make payments of Guaranteed Amounts.

RISK FACTORS RELATING TO REGULATION OF THE MORTGAGES

Mortgages regulated by the Consumer Credit Act 1974

To the extent that they do not exceed the relevant financial limits, some of the Cover Pool Mortgages and any Further Advances in relation thereto may be regulated by the Consumer Credit Act 1974 (as amended) (the “CCA”) and insofar as any such Mortgage finances the supply of insurance under arrangements with the supplier of the insurance, the Mortgage may be partly regulated by the CCA and may give rise to liability under Section 56 and/or Section 75 of the CCA (*liability of creditor for misrepresentations and breaches of contract by supplier*). The CCA, among other things, sets requirements for the format, content and execution of loan documentation and for the procedures to be taken by the lender when originating a CCA regulated loan. For further details of these requirements, see “*Regulation of the UK Residential Mortgage Market – Mortgages Regulated by the Consumer Credit Act 1974*” below.

Where the origination or documentation of a Cover Pool Mortgage and Further Advance does not comply with the requirements of the CCA, then to the extent that it is regulated or to be treated as such:

- (i) the Mortgage and Further Advance will be unenforceable if the form to be signed by the Borrower is not signed by the Borrower or omits or misstates a “prescribed term”; or
- (ii) in other cases, the Mortgage and Further Advance will be unenforceable without a court order and, in exercising its discretion whether to make the order, the court will take into account any prejudice suffered by the Borrower and any culpability by the Seller.

In the latter circumstances, the court has the power, if it appears just to do so, to amend the Mortgage and Further Advance or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Pursuant to the terms of the Mortgage Transfer Deed, the Seller will represent and warrant to the LLP that no agreement for any Mortgage to be included in the Cover Pool is, or has ever been, wholly or partly regulated by the CCA (other than in relation to Sections 137 to 140 of the CCA) or constitutes an extortionate credit bargain under Sections 137 to 140 of the CCA or, to the extent that it is so regulated or partly regulated, such Mortgage is a valid and binding obligation on the Borrower and enforceable upon order of a court.

Recent reforms to the Consumer Credit Act 1974 and subordinate legislation

The Consumer Credit Act 2006 was enacted in March 2006, and contains reforms to the CCA, including:

- (i) the removal of the financial limit from the CCA in respect of credit for non-business lending;
- (ii) the exemption from the CCA regime of high net worth debtors and credit above the value of £25,000 where such credit is entered into by the debtor predominantly for the purposes of a business carried on, or intended to be carried on, by him;
- (iii) the creation of an independent ombudsman service, allowing consumers to challenge agreements without court proceedings and the creation of a Consumer Credit Appeals Tribunal;
- (iv) further criteria (applicable with some retroactive effect) to determine whether the relationship between debtors and creditors is unfair, which will include unfair practices and terms, not just extortionate rates of interest;
- (v) the strengthening of the powers of the Office of Fair Trading (“OFT”) in relation to CCA licence holders;
- (vi) the introduction of discretionary unenforceability (rather than mandatory unenforceability) of consumer credit agreements which breach certain requirements of the CCA in order to allow courts to make a judgment that is proportionate to the detriment caused to the consumer;
- (vii) the requirement on lenders to provide annual statements and an arrears notice with an OFT information sheet on what to do about arrears; and
- (viii) new provisions relating to the licensing of consumer credit businesses.

The reforms to the CCA will come into force as and when the Secretary of State for Trade and Industry so appoints. A public announcement of definitive implementation dates is pending as at the date of this Base Prospectus. Further proposals to amend the CCA and secondary legislation made under it are expected at an unspecified time.

The amendments in the Consumer Credit Act 2006 (when implemented): (a) would make all Mortgages subject to some form of regulation (unless an exemption applies); (b) may increase the possibility of a challenge to agreements on the basis of “unfairness” (with some retrospective application to existing agreements); (c) would set out proportionality principles for courts in their enforcement of consumer credit agreements; and (d) may result in more restrictions being placed upon the activities of consumer credit licence holders.

Mortgages Regulated by the Financial Services Authority under the Financial Services and Markets Act 2000

As from 31 October 2004, a number of activities relating to certain Mortgages (“**Regulated Mortgages**”) became “regulated activities” under Section 19 of FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the “**Order**”) and these activities require authorisation from the Financial Services Authority (“**FSA**”). These activities are: (a) entering into a Regulated Mortgage as lender; (b) administering a Regulated Mortgage (administering in this context means notifying borrowers of changes in payments, interest rates or other notifiable matters and/or collecting payments due); (c) advising on Regulated Mortgages; (d) arranging Regulated Mortgages; and (e) agreeing to do any of the foregoing.

HSBC is authorised by the FSA to carry out such regulated activities (other than advising on Regulated Mortgages) and is registered by the FSA with registration number 114216. The LLP is of the view that it is not required to be authorised since its activities are such that it either does not fall within the regulated activities as defined in the Order or it benefits from a specific exclusion in respect of those activities.

Authorisation by the FSA subjects the Seller to the full regulatory regime imposed by FSMA and the FSA. In particular, the Seller is required to have in place full systems and controls, to ensure that those carrying out controlled functions are authorised by the FSA, to maintain prescribed prudential ratios, and its activities and Regulated Mortgages will be subject to the Financial Ombudsman Scheme. In addition, the regulated activities relating to Regulated Mortgages will be subject to mortgage conduct of business rules set out in the FSA handbook (“**MCOB**”) (as described in further detail below).

An authorised person who carries on a regulated activity in relation to a Regulated Mortgage, other than in accordance with permission given to it by the FSA or a failure to comply with the provisions of MCOB will not render any Regulated Mortgages unenforceable. However, breach of the rules in MCOB or the FSMA authorisation requirements by an FSA regulated entity is actionable by Borrowers who suffer loss as a result of the contravention. Any such breach could therefore give rise to a claim by a Borrower to set off sums due under a Regulated Mortgage. However, Regulated Mortgages will be unenforceable if they are advised upon, arranged, entered into or administered by a company which is not authorised. The Seller is authorised by the FSA to carry out such regulated activities (other than advising on Regulated Mortgages as stated above). Regulated Mortgages will also be unenforceable if they are originated as a result of financial promotion in relation to which there has been a contravention of Section 21(1) of the FSMA.

The FSA has significant regulatory flexibility to alter its rules and to provide guidance on existing rules. No assurance can be given that the FSA will not change its rules or guidance or take a particular regulatory approach which may adversely affect the Seller’s particular sector in the mortgage market or the Seller specifically. Any such development may have a material adverse effect on the LLP and/or the Servicer, as applicable, and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1994 apply to all of the Mortgages that were subject to standard terms and entered into during the period 1 July 1995 to 30 September 1999, and the Unfair Terms in Consumer Contracts Regulations 1999 apply to all of the Mortgages that are subject to standard terms and have been entered into since 1 October 1999. The effect of these regulations (collectively, the “**UTCCR**”) on the Mortgages is that:

- (i) a Borrower may challenge a term in an agreement on the basis that it is an “unfair” term within the meaning of the UTCCR. An unfair term will not be binding on the Borrower, although the contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term; and

- (ii) the OFT, the FSA and any “qualifying body” (as defined in the UTCCR) may take court proceedings to injunct (or in Scotland, interdict) the Seller from using and relying on unfair terms.

This will not generally affect “Core Terms” which set out the main subject matter of the contract provided that they are written in plain and intelligible language (such as the Borrower’s obligation to repay principal) but may affect terms deemed to be ancillary terms, which may include, *inter alia*, interest variation provisions and other terms the application of which are in the Seller’s discretion. For example, if a term permitting the Seller to vary the interest rate in respect of a Cover Pool Mortgage is found to be unfair, the Borrower will not be liable to pay the increased rate or, to the extent that she or he has paid it, will be able, as against the Seller or the LLP, to claim repayment of the extra interest amounts paid or to set off the amount of such claim against the amount owing by the Borrower under the Mortgage. Any such non-recovery, claim or set-off ultimately may adversely affect the ability of the LLP to make payments of the Guaranteed Amounts.

On 24 February 2000, the OFT issued a guidance note on what the OFT considers to be fair and unfair terms for interest variation in mortgage contracts. The guidance note accepts the principle of a term linking an interest rate to an external rate which is outside the lender’s control. It provides that, generally, the OFT and Consumers’ Association will not regard such a term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference, and the time limits within which charges will be made. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender’s control, and if the Borrower could be considered to be locked in by an early repayment charge, the OFT indicated that it considered the term would be open to challenge as unfair under the UTCCR unless the lender (i) notifies the Borrower in writing at least 30 days before the rate change and (ii) permits the Borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The Seller has reviewed the guidance note and believes that the Mortgages and its business in general comply with the guidance note.

The guidance note was withdrawn from the OFT website a number of years ago. Prior to regulation by the FSA of Regulated Mortgages, the FSA agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. Following this understanding, the FSA published guidance on interest rate variation practices in May 2005. The FSA also published a general FSA fact sheet entitled “Challenging unfair contract terms” in January 2005. The FSA guidance is not materially different to the withdrawn OFT guidance.

In August 2002 the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper proposing changes to the UTCCR, including harmonising provisions of the UTCCR and the Unfair Contract Terms Act 1977, applying the UTCCR to business-to-business contracts and revising the UTCCR to make it “clearer and more accessible”. A final report was published in 2005. There is no current public indication that the UK government will take steps to implement the recommendations of the Law Commission. No assurances can be given that changes to the UTCCR, if implemented, will not have an adverse effect on the Seller, the LLP and/or the Servicer.

Proposed Consumer Credit Directive

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the member states of the European Union (the “**Member States**”) concerning credit for consumers and surety agreements entered into by consumers.

There was significant opposition from the European Parliament to the original form of the proposed directive, and to an amended form of the proposed directive published in October 2004.

In July 2005, the European Commission published a Green Paper on mortgage credit, in which it announced its intention that loans secured by a mortgage on land will be excluded from the proposed directive but will be covered by any initiatives resulting from the Green Paper process. In October 2005, the European Commission published a further amended proposal for a directive on consumer credit which applies to loans not exceeding €50,000 (subject to certain exceptions), but would not apply to loans secured by a mortgage over real property.

The proposed directive may be further substantially amended and is likely to be adopted before mid-2006, and Member States would have a further two years to implement the directive. It is uncertain

what effect the adoption and implementation of the proposed directive, or of any initiatives resulting from the Green Paper process, would have on the Mortgages, the Seller or the LLP and their respective businesses and operations. No assurance can be given that the finalised directive or initiatives will not adversely affect the ability of the LLP to make payments of Guaranteed Amounts.

Financial Ombudsman Service

Under the FSMA, the Financial Ombudsman Service (the “**Ombudsman**”) is required to make decisions on, *inter alia*, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman’s opinion, would be fair and reasonable in all circumstances of the case, taking into account, *inter alia*, law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. An adjudicator would first adjudicate each case. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. The Ombudsman may order a money award to a Borrower, which may adversely affect the value at which the Cover Pool Mortgages could be realised and accordingly the ability of the LLP to make payments of Guaranteed Amounts, and may have an adverse effect on the Seller and the LLP and their respective businesses and operations.

Unfair Commercial Practices Directive

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

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

The DTI published a consultation paper on implementing the Unfair Practices Directive into UK law in December 2005. Member States have until 12 December 2007 in which to bring national implementing legislation into force, subject to a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies. It is too early to predict what effect the implementation of this directive would have on the Mortgages, the Seller or the LLP and their respective businesses and operations. No assurance can be given that the implementation of this directive will not adversely affect the ability of the LLP to make payments of Guaranteed Amounts.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (the “**DMD**”) has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the “**Regulations**”) and amendments to MCOB. In essence the Regulations require that in respect of distance contracts, consumers have the right to receive certain information and, for some financial services, a right to cancel.

For the purposes of the Regulations, a distance contract means “any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or service-provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded”. A similar definition is adopted in MCOB.

The Regulations and MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier’s control (such as interest rate changes); (ii) the supplier provides credit to a consumer and the consumer’s obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted-use credit agreement (within the meaning of the

CCA) to finance the purchase of land or an existing building, or an agreement for a bridging loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction (interdict in Scotland) and any breach may render the Seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the Regulations.

RISK FACTORS RELATING TO ADDITIONAL COLLATERAL OTHER THAN MORTGAGES

The Cover Pool may from time to time contain as Additional Collateral assets other than Mortgages and cash. Although all Additional Collateral must, in order to receive credit under the Covered Bond Coverage Tests, be Qualifying Additional Collateral and be an “eligible asset” for purposes of the definition of “covered bond” under the Capital Requirements Directive, there is no limit on the amount of non-mortgage Qualifying Additional Collateral either prior to or following service of a Notice to Pay. Consequently, Covered Bondholders should be aware that the assets in the Cover Pool securing the Covered Bond Guarantee could consist entirely of non-Mortgage Qualifying Additional Collateral. There is no guarantee that such Qualifying Additional Collateral will perform in a similar manner to the Cover Pool Mortgages.

The Issuer believes that the risks described above are the principal risks inherent in the transaction for Covered Bondholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with a Series of Covered Bonds may occur for other reasons and the Issuer does not represent that the above statements regarding the risks relating to a Series of Covered Bonds are exhaustive. Although the Issuer believes that the various structural elements described in this Base Prospectus lessen some of these risks for Covered Bondholders, there can be no assurance that these measures will be sufficient to ensure payment to Covered Bondholders of interest, principal or any other amounts on or in connection with a Series of Covered Bonds on a timely basis or at all.

HSBC BANK PLC (THE ISSUER)

HISTORY AND DEVELOPMENT OF THE ISSUER

HSBC Bank plc is a public limited company registered in England and Wales under registration number 14259. The liability of members is limited. It has its registered office and head office at 8 Canada Square, London E14 5HQ, and the telephone contact number is +44 20 7991 8888. The Issuer was constituted by Deed of Settlement on 15 August 1836 and registered under the Companies Act 1862 as an unlimited company. It was incorporated under the Companies Acts 1862 to 1879 on 1 July 1880. On 27 November 1923, the Issuer adopted the name of Midland Bank Limited which it held until 1 February 1982 when the Issuer was re-registered under the Companies Acts 1948 to 1980 as a public limited company and changed its name to Midland Bank plc. During the year ended 31 December 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc (“**HSBC Holdings**”) and by special resolution on 27 September 1999, changed its name from Midland Bank plc to HSBC Bank plc. For the purposes of advertising, the Issuer uses an abbreviated version of its name, that is, HSBC.

LEGISLATION

The Issuer is subject to primary and secondary legislation relating to financial services and banking regulation in the United Kingdom, including, *inter alia*, the Financial Services and Markets Act 2000, for the purposes of which the Issuer is an authorised person carrying on the business of financial services provision. In addition, as a public limited company, the Issuer is subject to the Companies Acts 1985 and 1989 (as amended).

PRINCIPAL ACTIVITIES AND MARKETS

HSBC Bank plc and its subsidiaries form a UK-based group (the “**Group**”) providing a comprehensive range of banking and related financial services.

The Issuer divides its activities into the following business segments: UK Personal Financial Services; UK Commercial Banking; UK Corporate, Investment Banking and Markets; International Banking; HSBC France; Private Banking; and HSBC Trinkaus & Burkhardt.

UK Personal Financial Services provides current accounts, savings, personal loans, mortgages, cards, wealth management and general insurance to UK personal customers through a variety of distribution channels under the HSBC, First Direct, M&S Money and partnership cards brands.

UK Commercial Banking provides products and services to a broad range of commercial organisations from sole proprietors to major companies.

Corporate, Investment Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide. Products and services offered include Global Markets, Global Transaction Banking, Corporate and Institutional Banking, Global Investment Banking and the Group’s Investment Business.

International Banking provides a range of retail financial services, primarily across Europe, to local and expatriate customers and wholesale banking to corporate and institutional clients.

HSBC France offers a wide range of retail, commercial and asset management products to individuals, companies and institutional customers through a network of regional banks in France.

Private Banking offers an array of client services to high net worth customers, including advisory portfolio management, discretionary asset management, tax, trust and estate planning, mutual funds and currency and securities transactions.

HSBC Trinkaus & Burkhardt, based in Düsseldorf, Germany, offers a comprehensive range of services to wealthy private clients, larger companies, institutional investors, public corporations and financial institutions.

As at 31 December 2005, the Issuer had 1,528 branches in the United Kingdom. Outside the United Kingdom, it has branches in Australia, Belgium, Cyprus, the Czech Republic, France, Greece, Guernsey, the Hong Kong Special Administrative Region, Ireland, the Isle of Man, Israel, Italy, Jersey, the Netherlands, Slovakia, South Africa, Spain and Sweden; it has a representative office in Venezuela; and its subsidiaries have offices in Armenia, the Channel Islands, France, Germany, Greece, Israel, Kazakhstan, Luxembourg, Malta, Poland, Russia, South Africa, Switzerland, Turkey and the United Arab Emirates. Through these undertakings, the Issuer provides a comprehensive range of banking and related financial services.

In all the main countries in which the Issuer operates, it competes with the other major domestic banks in those countries. In addition, the Issuer competes with other major global banks in respect of its corporate, investment banking and markets and private banking businesses.

As at 31 December 2005, the Issuer's principal subsidiary undertakings and their country of incorporation or registration were:

<i>Name of Subsidiary</i>	<i>Location</i>
HSBC France (99.99 per cent owned)	France
HSBC Asset Finance (UK) Limited	England
HSBC Bank A.S.	Turkey
HSBC Bank International Limited	Jersey
HSBC Bank Malta plc (68.19 per cent owned)	Malta
HSBC Guyerzeller Bank AG (99.72 per cent owned)	Switzerland
HSBC Invoice Finance (UK) Limited	England
HSBC Life (UK) Limited	England
HSBC Rail (UK) Limited	England
HSBC Private Bank (Guernsey) Limited (99.72 per cent owned)	Guernsey
HSBC Private Bank (Suisse) S.A. (94.29 per cent owned)	Switzerland
HSBC Private Bank (UK) Limited (99.72 per cent owned)	England
HSBC Trinkaus & Burkhardt KGaA (77.89 per cent owned)	Germany
HSBC Trust Company (UK) Limited	England
Marks and Spencer Retail Financial Services Holdings Limited	England

ORGANISATIONAL STRUCTURE

HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe. The Issuer is a wholly and directly owned subsidiary of HSBC Holdings plc, the UK holding company of the HSBC Group.

The whole of the issued ordinary and preference share capital of the Issuer is owned by HSBC Holdings plc.

The HSBC Group is one of the largest (by market capitalisation) banking and financial services organisations in the world, with around 9,500 offices in 76 countries and territories in five geographical regions: Europe; Hong Kong; the rest of Asia-Pacific, including the Middle East and Africa; North America; and South America. Its total assets at 30 June 2006 were £942 billion.

MANAGEMENT

The Directors of the Issuer, each of whose business address is 8 Canada Square, London E14 5HQ, their functions in relation to the Group and their principal outside activities (if any) of significance to the Group are as follows:

<i>Name</i>	<i>Function</i>	<i>Other principal activities outside the Issuer</i>
S K Green	Chairman	Group Chairman, HSBC Holdings plc
M F Geoghegan, CBE	Deputy Chairman	Group Chief Executive, HSBC Holdings plc
D D J John	Chief Executive	Group Managing Director, HSBC Holdings plc
D C Budd	Chief Operating Officer	Group General Manager, HSBC Holdings plc
S T Gulliver	Chief Executive, Corporate, Investment Banking and Markets and Group Investment Businesses	Group Managing Director, HSBC Holdings plc Head of the HSBC Group's Corporate, Investment Banking and Markets and Group Investment Businesses
C-H Filippi	Director	Chairman and Chief Executive Officer, HSBC France Group Managing Director HSBC Holdings plc
J D Fishburn	Director*	Chairman, HFC Bank Limited and Independent non-executive Director of HSBC Finance Corporation
C M S Jones	Director*	—

<i>Name</i>	<i>Function</i>	<i>Other principal activities outside the Issuer</i>
R E S Martin	Director*	General Counsel and Company Secretary of Reuters Group PLC
A R D Monro-Davies	Director*	—
P M Shawyer	Director*	—
J Singh	Director*	Chairman and Chief Executive Officer, Edwardian Group Limited
J F Trueman	Director*	—

* Independent non-executive Director

There are no existing or potential conflicts of interest between any duties owed to the Issuer by its management (as described above) and the private interests and/or other external duties owed by these individuals.

EXECUTIVE COMMITTEE

The Issuer's Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Executive Committee are: D D J John (Chairman), D C Budd and S T Gulliver all of whom are executive Directors, and S Assaf, B M Cannon, J D Garner, A M Keir, C G F Laughton-Scott, A M Mahoney, R K McGregor, C M Meares and M P Smith, all of whom are senior executives.

MAJOR SHAREHOLDERS

The Issuer is directly and wholly owned by HSBC Holdings plc.

FINANCIAL SUMMARY

The audited consolidated income statements of the Issuer and its subsidiaries for the two financial years ended 31 December 2004 and 31 December 2005 are available on page 26 of the Issuer's 2004 Annual Report, and page 20 of the Issuer's 2005 Annual Report, respectively (see also "*Documents incorporated by reference*").

THE LLP

DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland (but not Northern Ireland) under the Limited Liability Partnership Act 2000 (the “**LLPA 2000**”). Limited liability partnerships combine the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

A limited liability partnership is more like a company than a partnership. A limited liability partnership is a body corporate with its own property and liabilities, separate from its members. Like shareholders in a limited company, the liability of the members of a limited liability partnership is limited to the amount of their capital because it is a separate legal entity and when the members decide to enter into a contract, they bind the limited liability partnership in the same way that directors bind a company. Members may be liable for their own negligence and other torts or delicts, like company directors, if they have assumed a personal duty of care and have acted in breach of that duty. Third parties can assume that members, like company directors, are authorised to act on behalf of the limited liability partnership.

The provisions of the Companies Act 1985 and the Insolvency Act have been modified by the Limited Liability Partnerships Regulations 2001 (as amended by the Limited Liability Partnerships (Amendment) Regulation 2005) so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity, a limited liability partnership can *inter alia* grant fixed and floating security over its assets, and will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members’ agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

Limited liability partnerships must file annual returns and audited annual accounts at Companies House for each financial year in the same way as companies.

A limited liability partnership retains certain characteristics of a partnership. It has no share capital and there are no capital maintenance requirements. The members are free to agree how to share profits, who is responsible for management and how decisions are made, when and how new members are appointed and the circumstances in which its members retire. The members’ agreement is a private document and there is no obligation to file it at Companies House.

A limited liability partnership which carries on a trade, profession or other business with a view to profit (and which is not the subject of certain insolvency proceedings) is, generally speaking, treated as a partnership for corporation tax purposes. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are subject to corporation tax in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are subject to corporation tax in relation to the business of that partnership. Limited liability partnerships are not tax transparent in relation to VAT, and a limited liability partnership can register for VAT in its own name.

INCORPORATION OF THE LLP AND THE PARTNERSHIP DEED

The LLP was incorporated in England and Wales on 4 September 2006, as a limited liability partnership (registered number OC322136) with limited liability under the LLPA 2000 by the Seller, the Liquidation Member and the RMBS Member as its members (together, the “**Members**”). The principal place of business of the LLP is at 8 Canada Square, London E14 5HQ. The LLP has no subsidiaries.

The principal objects of the LLP are set out in a partnership deed entered into on the Initial Contribution Date (as amended from time to time, the “**Partnership Deed**”) between, *inter alia*, the LLP and the Members. They include, *inter alia*, the ability to carry on the business of accepting capital contributions from the Seller of Mortgages pursuant to the terms of the Mortgage Transfer Deed with a view to holding such Mortgages in order to generate profit and to do all such things as are incidental or conducive to the carrying on of that business.

The LLP has not engaged since its incorporation, and will not engage whilst the Covered Bonds or any Related Debt remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA 2000 and activities contemplated under the LLP Transaction

Documents to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

The Members have such duties as are specified in the LLPA 2000 or otherwise at law and in the Partnership Deed. The Partnership Deed requires that there will at all times be at least two Members of the LLP.

MEMBERS

The members of the LLP as at the Programme Establishment Date will be and their registered offices are:

<i>Name</i>	<i>Registered/Head Office</i>
Halphen Mortgage Backed Securities PLC	35 Great St. Helen's, London EC3A 6AP
Halphen Liquidation Member Limited	35 Great St. Helen's, London EC3A 6AP
HSBC Bank plc	8 Canada Square, London E14 5HQ

The LLP has no employees.

DIRECTORS OF THE MEMBERS

The following table sets out the directors of the RMBS Member, the Liquidation Member and HSBC Bank plc, and their respective business addresses and occupations.

(i) Halphen Mortgage Backed Securities PLC:

<i>Name</i>	<i>Business Address</i>	<i>Business Occupation</i>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Director of SPVs
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Director of SPVs

The directors of SFM Directors Limited and SFM Directors (No.2) Limited and their principal activities or business occupations are:

<i>Name</i>	<i>Business Address</i>	<i>Business Occupation</i>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Managing Director, Structured Finance Management Limited
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Claudia Wallace (alternate director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Management Limited
Helena Whitaker (alternate director)	35 Great St Helen's, London EC3A 6AP	Head of Operations, Structured Finance Management Limited
Annika Goodwille (alternate director)	35 Great St Helen's, London EC3A 6AP	Chartered Secretary
John Paul Nowacki (alternate director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Management Limited

(ii) Halphen Liquidation Member Limited:

<i>Name</i>	<i>Business Address</i>	<i>Business Occupation</i>
Oliver Parr	16 Horbury Crescent, Notting Hill, London W11 3NF	Financial Advisor
Jocelyn Coad	41 Gosberton Road, London SW12 8LE	Accountant/Finance Director

(iii) HSBC Bank plc:

See “*HSBC Bank plc (The Issuer) – Management*”.

The directors of the Members of the LLP will not themselves be partners of the LLP, nor will such directors by virtue of their appointment in such capacity in relation to a Member of the LLP, become members of the management body of the LLP.

There are no existing or potential conflicts of interest between any duties owed to the LLP by its management (as described above) and the private interests of, and/or other external duties owed by, individuals or entities who comprise the management of the LLP.

OTHER PROVISIONS

The management of the business of the LLP will be carried out by the management committee (the “**Management Committee**”) which shall consist of each of the Members (for so long as it remains a Member). Each Member will, under the terms of the Partnership Deed, from time to time designate an individual to represent it in carrying out the functions of the Management Committee. Such individuals will be selected from the directors, officers or employees of each Member. Individuals representing the Liquidation Member and the RMBS Member will comprise a majority of the Management Committee, and the individual representing the Seller will comprise a minority.. The Members will delegate all matters (other than any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP, which require a unanimous decision of the Members) to the Management Committee. Any decision by the Management Committee relating to any change in the LLP’s business, any change to the LLP’s name and any amendment to the Partnership Deed, will only be made, whilst any Covered Bonds or Related Debt are outstanding, with the prior written consent of the LLP Security Trustee.

The capital of each Member in the LLP (other than the Liquidation Member) will be recorded in a ledger and the balance recorded in such ledger (the “**Capital Balance**”) will represent the principal value of each Member’s partnership interest in the LLP.

The Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the LLP Cash Manager on its behalf) unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priorities of Payments (set out in the Partnership Deed and the LLP Security Deed) have been paid in full (each such priority of payment a “**Priority of Payments**” and together the “**Priorities of Payment**”).

Each Member will be responsible for the payment of its own tax liabilities and will be required to indemnify the LLP and the other Members from any liabilities that they incur as a result of the relevant Member’s non-payment.

COVENANTS OF THE LLP AND THE MEMBERS

Each of the Members has covenanted in the Partnership Deed that, except as provided in the LLP Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds and any Related Debt are outstanding, the LLP Security Trustee.

The LLP has covenanted in the Partnership Deed that it will not, save with the prior written consent of the LLP Management Committee and the LLP Security Trustee, or as envisaged by the LLP Transaction Documents:

- (i) create or permit to subsist any security interest over the whole or any part of its assets or undertakings, present or future other than pursuant to the LLP Security Deed;
- (ii) dispose of, deal with or grant any option or present or future right to acquire any of its assets or undertakings or any interest therein or thereto;
- (iii) have an interest in a bank account;
- (iv) incur any indebtedness or give any guarantee or indemnity in respect of any such indebtedness;
- (v) consolidate or merge with or transfer any of its property or assets to another person;
- (vi) have any employees, premises or subsidiaries;
- (vii) acquire assets other than pursuant to the Mortgage Transfer Deed, the LLP Cash Management Agreement and the Partnership Deed;

- (viii) engage in any activities or derive income from any activities within the United States or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (ix) enter into any contracts, agreements or other undertakings;
- (x) compromise, compound or release any debt due to it;
- (xi) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (xii) be a member of any VAT group.

Each Member has agreed that it will not, for so long as any Covered Bonds or any Related Debt are outstanding, terminate or purport to terminate the LLP or institute any winding-up, administration, insolvency or other similar proceedings against the LLP. Furthermore, the Members have agreed, *inter alia*, not to demand or receive payment of any amounts payable by the LLP (or the LLP Cash Manager on its behalf) or the LLP Security Trustee unless all amounts then due and payable by the LLP to all other creditors ranking higher in the relevant Priority of Payments have been paid in full.

ASSET PORTFOLIOS AND THE COVER POOL

All of the assets of the LLP will be held in one of two portfolios, referred to as the “**Mortgage Portfolio**” and the “**Additional Covered Bond Collateral Portfolio**” (together, the “**Asset Portfolios**”). The assets held in the Additional Covered Bond Collateral Portfolio are referred to collectively as “**Additional Collateral**”.

The obligations of the LLP under the Covered Bond Guarantee will be backed by the “**Cover Pool**”, which will comprise the Mortgage Portfolio (but only to the extent of the Covered Bond Entitlement – see “*HSBC Share and RMBS Share of the Mortgage Portfolio – HSBC Share – Entitlements*”) and all of the assets in the Additional Covered Bond Collateral Portfolio (see “*The Additional Covered Bond Collateral Portfolio*”). “**Cover Pool Mortgages**” refers to the Mortgages in each of the Mortgage Portfolio (prior to Asset Segregation) and the Additional Covered Bond Collateral Portfolio.

BANK ACCOUNTS AND LEDGERS

The LLP will maintain the following bank accounts with the LLP Account Bank (the “**LLP Accounts**”):

- (i) the “**Mortgage Portfolio Account**”, which account will form part of the Mortgage Portfolio; and
- (ii) the “**Covered Bond Account**”, which account will form part of the Additional Covered Bond Collateral Portfolio.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the LLP Account Bank cease to be rated A-1+ by S&P, P-1 by Moody’s or F1+ by Fitch, then either:

- (i) the LLP Accounts will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a financial institution (a) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch and (b) which is an authorised person under the FSMA; or
- (ii) the LLP Account Bank will obtain a guarantee of its obligations under the LLP Account Bank Agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch,

in each case, provided that the Rating Condition is being met.

The LLP Cash Manager will maintain an interest collections ledger and a principal collections ledger (the “**LLP Interest Collections Ledger**” and “**LLP Principal Collections Ledger**”, respectively) in respect of the Mortgage Portfolio Account and will also maintain a ledger in respect of each Overcollateralised Portfolio in the Mortgage Portfolio to record all debits in respect of the related Portfolio Overcollateralisation Amount.

The LLP Cash Manager will, if required, establish a reserve ledger in the Covered Bond Account (the “**Reserve Ledger**”), as described in “*Features of the Programme – Reserve Fund*” and also ledgers in the Covered Bond Account in respect of each Series of Covered Bonds following either a failure of the Pre-Maturity Test or service of a Notice to Pay on the LLP.

In addition, the LLP Cash Manager on behalf of the LLP will maintain a Capital Account Ledger for each Member which will record the Capital Balance of that Member's partnership interest in the LLP from time to time.

THE COVERED BOND PROGRAMME AND THE RMBS PROGRAMME

The Covered Bond Programme

The Covered Bond Programme is described in the section entitled "*Features of the Covered Bond Programme*", below.

The RMBS Programme

The RMBS Member may establish a note issuance programme (the "**RMBS Programme**") and may issue notes in the form of residential mortgage-backed securities ("**RMBS**") from time to time under that programme. Any RMBS so issued will be backed solely by the assets of the RMBS Member (principally the RMBS Share in the Mortgage Portfolio) and will not be obligations of, or guaranteed by, the LLP or the Issuer. Holders of RMBS will have no recourse to the Cover Pool.

The RMBS (to the extent issued at all) will be issued in classes. RMBS of the most senior class will generally receive, on their respective issue dates, the highest possible rating from two or more of the Rating Agencies, and will benefit from such level of overcollateralisation as is required to achieve those ratings. All Realised Losses that occur in the Mortgage Portfolio and are allocated to the RMBS Member will be recorded on a principal deficiency ledger of the most junior class of RMBS (until the balance of that ledger equals the principal amount of the RMBS of that class then outstanding, at which point Realised Losses will be allocated to the next most senior class of RMBS). Amounts recorded against the principal deficiency ledger of any class of RMBS will be reduced to the extent that Mortgage Portfolio Interest Collections distributed on the RMBS Share and other amounts are available to make up such losses. Generally, if cumulative Realised Losses on the Mortgage Portfolio (less cumulative amounts used to make up losses) exceed the amount of overcollateralisation available to support the most senior class of RMBS, a balance will be recorded to the principal deficiency ledger of the most senior class of RMBS and an Asset Trigger Event may occur. See "*Trigger Events*" below.

Trigger Events

"**Trigger Event**" means an Asset Trigger Event and/or a Non Asset Trigger Event.

An "**Asset Trigger Event**" will be deemed to have occurred at the commencement of any Collection Period if the LLP Cash Manager determines that, after all Realised Losses are allocated and all amounts are applied on the Distribution Date that falls during that Collection Period, a debit balance will remain outstanding on the principal deficiency ledger of the most senior class of RMBS.

A "**Non Asset Trigger Event**" will occur if any of the following occur:

- (i) an HSBC Trigger;
- (ii) a Servicer Trigger; or
- (iii) a Minimum Seller Entitlement Trigger.

An "**HSBC Trigger**" will occur if:

- (i) an Issuer Event of Default occurs;
- (ii) a default is made in the performance or observance by the Issuer of any obligation (including any obligation in respect of the Pre-Maturity Test but excluding any obligation for the payment of principal or interest in respect of any Covered Bonds) under the provisions of the Covered Bonds of any Series or the Trust Deed or any other LLP Transaction Document to which the Issuer is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy) continues for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied (and indicating that an HSBC Trigger will occur if it is not so remedied) shall have been given to the Issuer by the Bond Trustee in accordance with the Trust Deed; or
- (iii) proceedings are initiated against the Issuer under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in

compliance with the terms of Condition 12 (*Meetings of Covered Bondholders, Modifications, Waiver and Substitution*)); or a receiver, administrator, trustee or other similar official is appointed in relation to the Issuer or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process is levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within 30 days; or if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws (except in connection with a reconstruction, amalgamation, merger or following the transfer of all or substantially all of the assets of the Issuer, the terms of which have previously been approved by the Bond Trustee or an Extraordinary Resolution of the holders of the Covered Bonds or which has been effected in compliance with the terms of Condition 12 (*Meetings of Covered Bondholders, Modifications, Waiver and Substitution*)) or makes a conveyance to, assignment for the benefit of, or enters into any composition with, its creditors generally.

A “**Servicer Trigger**” will occur if the Seller’s role as Servicer is terminated and a new Servicer is not appointed within sixty (60) days. See “*Servicing of the LLP Mortgages*”.

A “**Minimum Seller Entitlement Trigger**” will occur if the Minimum Seller Entitlement is less than the Required Minimum Seller Entitlement as of the end of any Collection Period and it remains less than the Required Minimum Seller Entitlement at the end of the next Collection Period (see “*HSBC Share and RMBS Share of the Mortgage Portfolio – Calculation of Shares and Entitlements*”). For consequences of Trigger Events see “*Prospectus Summary – Cash flows*”.

CASH MANAGEMENT OF THE LLP

The LLP Cash Manager will provide certain cash management services to the LLP pursuant to the terms of a cash management agreement (the “**LLP Cash Management Agreement**”).

The LLP Cash Manager’s services to the LLP will include but will not be limited to:

- (i) maintaining, on behalf of the LLP, the Mortgage Portfolio Account, the Covered Bond Account and each of the ledgers referred to in “– *Bank Accounts and Ledgers*” above;
- (ii) determining whether certain Trigger Events have occurred (see “– *Trigger Events*” above);
- (iii) distributing interest and principal collections from the Mortgage Portfolio and the Additional Covered Bond Collateral Portfolio as described in “*Transaction Cash flows*”;
- (iv) determining compliance with the Asset Coverage Test, Portfolio Yield Test, Pre-Maturity Test and Amortisation Test, as applicable; and
- (v) preparing certain reports containing information on the Cover Pool and compliance with, amongst other things, the Asset Coverage Test and the Portfolio Yield Test (the “**Investor Reports**”) for, *inter alios*, the Covered Bondholders, the Rating Agencies and the Bond Trustee. The Investor Reports will be sent to the Bond Trustee and will be available to Covered Bondholders free of charge.

In certain circumstances the LLP and the LLP Security Trustee will each have the right to terminate the appointment of the LLP Cash Manager and to appoint a substitute cash manager approved by the LLP Security Trustee. Any substitute cash manager will have substantially the same rights and obligations as the LLP Cash Manager, although the fee payable to the substitute cash manager may be higher.

RMBS MEMBER

INTRODUCTION

Halphen Mortgage Backed Securities PLC was incorporated in England and Wales on 6 April 2006, under the name of Wingtrail PLC, with registered number 5771763 and as a public company with limited liability under the Companies Act 1985 (as amended). The name of the RMBS Member was changed to Halphen Mortgage Backed Securities plc by a special resolution dated 24 August 2006. The registered office of the RMBS Member is at 35 Great St. Helen's, London EC3A 6AP. The RMBS Member's authorised share capital comprises 50,000 ordinary shares of £1 each. The RMBS Member's issued share capital comprises 50,000 ordinary shares of £1 each (of which £12,501.50 is paid up). All of the RMBS Member's issued share capital is held by Halphen Holdings (UK) Limited except for one share held by SFM Corporate Services Limited (the "UK Holdings Share Trustee"). The one share held by the UK Holdings Share Trustee is held in accordance with the terms of a trust established under English law pursuant to the terms of a declaration of trust (the "UK Holdings Share Trust Deed") dated 30 May 2006, with Halphen Holdings (UK) Limited having the beneficial interest in the UK Holdings Share Trust Deed. The Seller does not own directly or indirectly any of the share capital of the RMBS Member.

PRINCIPAL ACTIVITIES

The principal objects of the RMBS Member are set out in its Memorandum of Association and permit the RMBS Member, amongst other things, to raise capital, to make long-term investments and to grant security over its property for the performance of its obligations.

The RMBS Member is organised as a special purpose company. The RMBS Member was established to raise capital by the issue from time to time of series of notes and to use an amount equal to the gross proceeds of each such issuance to invest in partnership interests in the LLP in accordance with and pursuant to the terms of the Partnership Deed.

Since its incorporation, the RMBS Member has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 (as amended), the matters undertaken in connection with or preparatory for the RMBS Programme and its membership of the LLP or any other matters which are incidental or ancillary to those activities. The RMBS Member has no subsidiaries or employees.

The RMBS Member's ongoing activities will principally comprise of the issue of series of notes and instruments, the investment in partnership interests of the LLP in accordance with the Partnership Deed, the entering into of all LLP Transaction Documents to which it is expressed to be a party and the exercise of related rights and powers and other activities referred to in the base prospectus and/or final terms in connection with the RMBS Programme or those reasonably incidental to those activities.

DIRECTORS AND SECRETARY

The following sets out the directors of the RMBS Member and their business addresses and principal activities. The RMBS Member is organised as a special purpose company and will be largely passive, engaging only in the types of transactions relevant for the RMBS Programme. The RMBS Member will be managed and controlled by its directors in England and Wales, however, it is expected that, once the company is conducting business, it will only require a small amount of active management.

<i>Name</i>	<i>Nationality</i>	<i>Business Address</i>	<i>Principal Activities</i>
SFM Directors Limited	English	35 Great St. Helen's, London EC3A 6AP	Acting as corporate directors of special purpose companies
SFM Directors (No.2) Limited	English	35 Great St. Helen's, London EC3A 6AP	Acting as corporate directors of special purpose companies

The directors of the RMBS Member do not have a specific term of office but each may be removed by a resolution passed at a shareholders' meeting.

Prospective Covered Bondholders should be aware that each of the directors of the RMBS Member potentially has a number of other directorships and private interests. There are no potential or actual conflicts of interest posed as a result of such positions or interests.

The company secretary of the RMBS Member and its business address is:

<i>Name</i>	<i>Business Address</i>
SFM Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP

The directors of SFM Directors Limited and SFM Directors (No.2) Limited and their principal activities or business occupations are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Managing Director, Structured Finance Management Limited
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Claudia Wallace (alternate director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Management Limited
Helena Whitaker (alternate director)	35 Great St Helen's, London EC3A 6AP	Head of Operations, Structured Finance Management Limited
Annika Goodwille (alternate director)	35 Great St Helen's, London EC3A 6AP	Chartered Secretary
John Paul Nowacki (alternate director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Management Limited

LIQUIDATION MEMBER

INTRODUCTION

Halphen Liquidation Member Limited (the “**Liquidation Member**”) was incorporated in England and Wales on 6 April 2006, under the name of Benchgrove Limited, with registered number 5771776 and as a private company with limited liability under the Companies Act 1985 (as amended). The name of the Liquidation Member was changed to Halphen Liquidation Member Limited by a written resolution dated 24 August 2006. The registered office of the Liquidation Member is at 35 Great St. Helen’s, London EC3A 6AP. The Liquidation Member’s authorised share capital comprises 100 ordinary shares of £1 each. The Liquidation Member’s issued share capital comprises 100 ordinary shares of £1 each (of which £25.75 is paid up), of which 20 shares will be held by HSBC Bank plc and 80 shares will be held by Halphen Holdings (Jersey) Limited.

PRINCIPAL ACTIVITIES

The principal objects of the Liquidation Member are as set out in its Memorandum of Association and are, amongst other things, to acquire and hold, by way of investment and to deal in or exploit in such manner as may from time to time be considered expedient, a partnership interest in the LLP.

The Liquidation Member is organised as a special purpose company. Since its incorporation, other than holding a partnership interest in the LLP, the Liquidation Member has not engaged in any other activities. The Liquidation Member has no employees.

The current financial period of the Liquidation Member will end on 31 December 2006. The Liquidation Member will not prepare interim financial statements. The financial year of the Liquidation Member ends on 31 December each year.

DIRECTORS AND SECRETARY

The following sets out the directors of the Liquidation Member and their business addresses and occupation. The Liquidation Member is organised as a special purpose company and will be largely passive, engaging only in the types of transactions described in this Base Prospectus. The Liquidation Member will be managed and controlled by its directors in the United Kingdom, however, it is expected that, once the company is conducting business, it will only require a small amount of active management.

<i>Name</i>	<i>Nationality</i>	<i>Business Address</i>	<i>Occupation</i>
Oliver Parr	British	16 Horbury Crescent, Notting Hill, London W11 3NF	Financial Advisor
Jocelyn Coad	British	41 Gosberton Road, London SW12 8LE	Accountant/Finance Director

The directors of the Liquidation Member do not have a specific term of office but each may be removed by a resolution passed at a shareholders’ meeting.

Prospective Covered Bondholders should be aware that each of the directors of the Liquidation Member has a number of other directorships and private interests. There are no potential or actual conflicts of interest posed as a result of such positions or interests.

The company secretary of the Liquidation Member and its business address is:

<i>Name</i>	<i>Business Address</i>
SFM Corporate Services Limited	35 Great St. Helen’s, London EC3A 6AP

THE LIQUIDATION MEMBER CORPORATE SERVICES AGREEMENT

Pursuant to the terms of a corporate services agreement entered into on the Initial Contribution Date (the “**Liquidation Member Corporate Services Agreement**”), the UK Corporate Services Provider has agreed to provide certain directors to the Liquidation Member and also provide other corporate services to the Liquidation Member.

HSBC BANK PLC'S MORTGAGE BUSINESS

INTRODUCTION

The following describes some of the key features of the Mortgage Product Types offered primarily to owner-occupiers ("**Owner Occupier Mortgages**") and the process by which they are originated. Mortgages which satisfy the conditions described in "*The Mortgage Portfolio – Contribution of Mortgages*" will be capable of being assigned to the LLP. Selected statistical information on the LLP Mortgages on a specified cut-off date will be provided in the Final Terms for each Series of Covered Bonds.

As of the date of this Base Prospectus, the Seller's buy-to-let Mortgages (which are underwritten using different lending criteria, and are subject to different terms and conditions, than those described in this section) are not an Approved Product Type and are therefore ineligible for assignment to the LLP. Prospective investors should note, however, that the Seller may offer an Owner Occupier Mortgage to a Borrower notwithstanding that the relevant Mortgaged Property will be let to third parties and/or not occupied by the Borrower at any time, provided that the Borrower is able to satisfy the Lending Criteria described in this section (for example, if the Borrower is able to satisfy the Seller's affordability criteria in respect of the Mortgage applied for and any other relevant commitments, out of the Borrower's own salary or other personal income, ignoring any income from the rental of the proposed Mortgaged Property).

"**Borrower**" means a borrower under a Mortgage.

"**Mortgage**" means any of the following which is originated or acquired by the Seller or one of its affiliates:

- (i) a loan or loans (including Further Advances and any capitalised arrears), governed by English law, which together are secured by a charge by way of a first ranking legal mortgage over a residential property in England or Wales (the loans and related security being referred to, together, as an "**English Mortgage**");
- (ii) a loan or loans (including Further Advances and any capitalised arrears), governed by Northern Irish law, which together are secured by a charge by way of a first ranking legal mortgage or charge over a residential property in Northern Ireland (the loans and related security being referred to, together, as a "**Northern Irish Mortgage**"); or
- (iii) a loan or loans (including Further Advances and any capitalised arrears), governed by Scots law, which together are secured by a first ranking standard security over a residential property in Scotland (the loans and related security being referred to, together, as a "**Scottish Mortgage**").

"**Mortgaged Property**" means, in respect of any Mortgage, the residential property over which the relevant mortgage or security (as the case may be) has been created.

"**Principal Amount Outstanding**" means, in respect of a Mortgage, the aggregate (but avoiding double counting) of all principal amounts advanced to the relevant Borrower together with any amounts which have been properly capitalised in accordance with the relevant Mortgage Conditions but less all principal amounts repaid by the relevant Borrower (or otherwise collected) in respect of that Mortgage and, in respect of a Covered Bond, has the meaning given in the Conditions of the Covered Bonds.

PRODUCT TYPES OFFERED BY THE SELLER

The Seller offers a variety of mortgage loan products (each a "**Product Type**"), each with its own combination of features, including interest rate, repayment terms, eligibility criteria and LTV limits. Each Mortgage will comprise one or more loan parts, each of which may be a separate Product Type. The Seller reserves the right to create new Product Types and to amend the terms and conditions applicable to the Mortgages or Product Types which it offers (as the same may be amended from time to time, the "**Mortgage Conditions**"). Subject to the conditions described in "*The Mortgage Portfolio – Contribution of Mortgages*", the Seller may from time to time assign to the LLP (for inclusion in the Mortgage Portfolio or otherwise) Mortgages (together with Further Advances in respect of LLP Mortgages) which have different Mortgage Conditions than those Mortgages which were assigned to the LLP as of the Initial Contribution Date or any subsequent cut-off date.

Interest Rate Features

Prior to 19 March 2006, Owner Occupier Mortgages offered by the Seller fell into two general interest rate categories:

- (i) **“HSBC Home Buyer Variable Rate Mortgages”**: Mortgage advances subject to one of two variable rates, depending on the size of the relevant Mortgage (each an **“HSBC Home Buyer Mortgage Variable Rate”**) which in either case is guaranteed to be no more than 1 per cent above the Bank of England base rate for the term of the Mortgage.
- (ii) **“HSBC Home Buyer Fixed Rate Mortgages”**: Mortgage advances subject to a fixed interest rate for a specified period of time. At the end of this period, the interest rate reverts to the relevant HSBC Home Buyer Mortgage Variable Rate.

As of 19 March 2006, the Seller stopped offering HSBC Home Buyer Fixed Rate Mortgages and HSBC Home Buyer Variable Rate Mortgages (except as described below), and began to offer the following:

- (i) **“HSBC Fixed Rate Mortgages”**: Mortgage advances subject to a fixed interest rate for a specified period of time. At the end of this period, the interest rate reverts to the HSBC Variable Rate.
- (ii) **“HSBC Discount Rate Mortgages”**: Mortgage advances subject to the HSBC Variable Rate, less a discount which applies for a specified period of time. At the end of this period, the interest rate reverts to the HSBC Variable Rate.
- (iii) **“HSBC Tracker Rate Mortgages”**: Mortgage advances subject to a variable rate of interest that is set at a fixed margin above (the **“Tracker Rate”**) the Bank of England’s base rate for the term of the Mortgage.

As of the date of this Base Prospectus, the Seller permitted Borrowers who had existing Home Buyer Fixed Rate Mortgages and Home Buyer Variable Rate Mortgages in respect of one Mortgaged Property to transfer that Mortgage to a new Mortgaged Property.

“HSBC Variable Rate” means the variable rate set, except in limited circumstances described in *“Servicing of the Mortgage Portfolio – The Servicing Agreement”*, by the Servicer in its discretion. The HSBC Variable Rate is not directly linked to any index. The Servicer sets the HSBC Variable Rate having regard to the level of interest rates in the financial markets and competitive forces in the UK mortgage market.

In this Base Prospectus, HSBC Home Buyer Fixed Rate Mortgages and HSBC Fixed Rate Mortgages are referred to as **“Fixed Rate Mortgages”** and HSBC Home Buyer Variable Rate Mortgages, HSBC Discount Rate Mortgages and HSBC Tracker Rate Mortgages are referred to as **“Variable Rate Mortgages”**.

Interest on each Mortgage advance accrues on the current principal balance of that advance from time to time and is payable, in arrears, on the relevant monthly payment date (the **“Monthly Payment Date”**) for that Mortgage advance. Interest on each Mortgage is computed on a daily basis.

Repayment Features

Each Product Type has one of the following repayment methods:

- (i) **“Capital Repayment Mortgages”**: the Borrower is required to make monthly payments of both interest and principal such that the relevant Mortgage advance will have been repaid in full by the completion of the Mortgage term.
- (ii) **“Interest Only Mortgages”**: the Borrower is required to make monthly payments of interest but not of principal; the entire principal amount of the relevant Mortgage advance is repayable in full at the completion of the Mortgage term.
- (iii) **“HomeStart Mortgage”**: the Borrower is required to make monthly payments of interest only for the first three years of the term. At the end of this period, the Borrower is required to make monthly payments of both interest and principal, such that the relevant Mortgage advance will have been repaid in full by the completion of the term.

The Servicer reserves the right to agree to vary the repayment terms of any Mortgage (or part thereof) with the relevant Borrower at any time during the term of the Mortgage.

Monthly Payment

Under the Mortgage Conditions, Borrowers must generally make monthly payments required under the Mortgage Conditions on each Monthly Payment Date. Interest on Mortgages accrues in accordance with the Mortgage Conditions and is collected from Borrowers monthly, as set out above.

The monthly payment required to be paid by the relevant Borrower on each Monthly Payment Date in respect of a Mortgage advance (the “**Monthly Payment**”) may vary from month to month for various reasons, such as changes in interest rates (excluding Fixed Rate Mortgages, for so long as they are in their fixed rate period).

Mortgages offered by the Seller since October of 2004 require all Monthly Payments to be made by direct debit, unless another form of payment is agreed by the Seller, and the Monthly Payment in respect of each Mortgage advance is typically paid by direct debit.

Flexible Features

All Product Types permit Borrowers to make overpayments of principal from time to time, although certain charges may be applied if the relevant advance is in a fixed rate period or a discounted rate period and the relevant overpayment exceeds certain limits. As of the date of this Base Prospectus, none of the Product Types offered by the Seller permit Borrowers to make underpayments or take ‘payment holidays’; however the Servicer retains the discretion to waive strict compliance with the relevant Mortgage Conditions on a case-by-case basis in extraordinary circumstances. None of the Product Types (other than certain products which are no longer offered by the Seller and which will not be assigned to the LLP) permit Borrowers to redraw any principal amount which they have repaid.

Borrowers may be permitted to draw Further Advances, and in certain circumstances all or part of their Mortgage, in instalments over a period generally not exceeding six months.

ORIGINATION CHANNELS

The Seller’s primary Mortgage origination channels are its UK branch network and a central telephone-based service. Prospective Borrowers may also apply for a Mortgage through the Seller’s interactive internet site; qualifying applicants are referred to the telephone based service for underwriting approval. Over 90 per cent of Mortgage advances originated in each of 2003, 2004 and 2005 were originated through the Seller’s branch network and over 75 per cent were originated to holders of HSBC current accounts. As of the date of this Base Prospectus, over 80 per cent of the Mortgages were with Borrowers who held a current account with the Seller.

No third parties are currently accredited to sell or provide advice regarding Mortgages on behalf of the Seller. Certain Mortgages in the Mortgage Portfolio assigned to the LLP on or about the Initial Contribution Date (representing less than 0.1 per cent of the Mortgage Portfolio by aggregate principal amount) were sold through such third parties. The Seller and its affiliates reserve the right to originate Mortgages through third party introducers or brokers and Mortgages (together with Further Advances in respect of LLP Mortgages) assigned to the LLP after the date of this Base Prospectus may be originated through third party introducers and brokers. As of the date of this Base Prospectus, all of the LLP Mortgages were originated by the Seller; however the Seller reserves the right to assign, to the LLP, portfolios of mortgages acquired by it or its affiliates.

UNDERWRITING PROCESS AND LENDING CRITERIA

Underwriting

To obtain a Mortgage, the prospective Borrowers complete an application form which includes information about the applicants’ income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. A credit reference agency search is completed in all cases against each applicant at their current address and, if necessary, former addresses, which gives details of public information including any county court judgments and details of any bankruptcy. An internal credit score is also generated by an automated system in respect of each applicant to assist in the process of their credit application.

Since March 2003, all Mortgage applications have been evaluated by an automated system which sorts applications into ‘approve’, ‘refer’ and ‘reject’ categories. Applications which are graded ‘approve’ are approved, subject to certain conditions (such as, where required, receipt of a satisfactory property valuation). These applications are not evaluated by an underwriter in a traditional sense.

Applications which are graded as 'refer' or 'reject' (and, prior to November 2005, all Mortgage applications) are referred to an underwriter located in one of the Seller's branches or its central underwriting unit for review. A system-generated 'refer' or 'reject' decision may be overridden by the relevant underwriter, provided that the relevant application satisfies the Lending Criteria.

The Seller requires each underwriter either to complete a training programme with the Seller or have a minimum level of prior underwriting experience before being given the authority to approve Mortgages. The Seller has established various levels of authority for its underwriters which reflect, amongst other things, the degree of risk which the underwriter is permitted to approve. Underwriting decisions are monitored regularly for compliance with underwriting authority and conformity with the Lending Criteria.

The Seller periodically reviews the way in which it conducts its Mortgage origination business and may change its origination processes from time to time. The Seller will retain exclusive control over the underwriting policies and Lending Criteria to be applied to the origination of Mortgages.

Lending Criteria

Each Mortgage originated by the Seller was originated according to the Seller's lending criteria (as the same may be amended from time to time, the "**Lending Criteria**") applicable at the time the Mortgage was offered. Except where indicated below, the Lending Criteria applied to each Mortgage included in the Mortgage Portfolio as of the Programme Establishment Date were the same or substantially the same as the criteria described in this section. The Seller reserves the right to amend its Lending Criteria from time to time, and (subject to the conditions described in "*The Mortgage Portfolio – Contribution of Mortgages*") to assign, to the LLP, Mortgages which were originated under such revised Lending Criteria.

Some of the factors currently used in making a lending decision are as follows:

(i) Property Type

The prospective Mortgaged Property may in relation to English Mortgages be freehold, commonhold or leasehold, in relation to Northern Irish Mortgages, be freehold or leasehold, or in relation to a Scottish Mortgage, be heritable or held under a long lease. In the case of leasehold properties or, in Scotland, properties held under a long lease, the remaining term of the relevant lease must be at least 25 years longer than the term of the proposed Mortgage. The Seller does not have any pre-set criteria as to the type of construction of the proposed Mortgaged Property. All persons who are to be legal owners of the property on completion must either be Borrowers under the Mortgage or otherwise provide written consent to the Mortgage. The consent of certain other persons may also be required by law.

(ii) Income

All prospective Borrowers must supply proof of their incomes. In many cases, the Seller is able to verify the applicant's income from its own systems (such as where the applicant's salary is paid into an account maintained with the Seller). In other cases, this may be established by:

- (a) the last three monthly payslips or a letter from the applicant's employer; or
- (b) in the case of self-employed applicants, three years' audited trading accounts. (If the applicant has been self-employed for less than three years, other factors may be considered, such as the applicant's business plan and employment prospects should the business fail.)

(iii) Maximum Loan Amount

The maximum amount that the Seller will lend under a Mortgage is determined by a number of factors, including the affordability of that Mortgage to the relevant applicants. Affordability is determined after taking account of a number of factors, including the applicant's net income, existing credit commitments, estimated household expenditure on certain items and the cost of servicing the Mortgage. Performance or profit-related pay, allowances, mortgage subsidies, pensions, annuities, overtime, bonus and commission may be included (in whole or in part) in the calculation of an applicant's net income on a case-by-case basis. Where there are two or more applicants for the same Mortgage, less credit may be given for all but the highest income. The cost of servicing the Mortgage is estimated assuming the highest rate of interest payable under the Mortgage (which is generally the HSBC Variable Rate at the time of underwriting decision is made) and, in the case of Interest Only Mortgages, a monthly payment that includes scheduled repayments of principal.

The maximum loan amount will also be influenced by the applicant's credit score and the value of the proposed Mortgaged Property.

(iv) *Valuation*

All Mortgage applications are subject to a satisfactory valuation of the relevant Mortgaged Property.

As of the date of this Base Prospectus, where the relevant Mortgage is applied for in connection with the purchase of a home, the Seller generally requires a professional valuation of the proposed Mortgaged Property. As of the date of this Base Prospectus, the Seller has accredited two external professional valuation suppliers, who select, from an approved panel, an independent firm of professional valuers who operate in the relevant area to conduct the valuation of the prospective Mortgaged Property.

In other cases, prospective Mortgaged Properties may be valued by a member of the Seller's central underwriting unit or mortgage processing centre using third party software; however the Seller may in certain circumstances (such as where the relevant software indicates a loan to value ratio above a certain threshold) require a further assessment by a professional valuer or branch manager. Prior to December 2004, desktop and on-site valuations by the manager of the branch where the Mortgage was underwritten were also permitted.

(v) *Term*

The maximum term for a Capital Repayment Mortgage is 30 years; for an Interest Only Mortgage, 40 years; and for a HomeStart Mortgage, 30 years.

(vi) *Age of applicant*

All Borrowers must be aged 18 or over. There are no maximum age limits; however, if the term of the relevant Mortgage is expected to extend into the principal Borrower's retirement, additional evidence of continued affordability in retirement may be required.

(vii) *Credit history*

Credit scoring is undertaken for all Mortgage applications. A scorecard evaluates credit bureau, behavioural and demographic information. Applications may be declined where adverse credit history (for example, county court judgment, Scottish court decree for payment, default or bankruptcy notice) is revealed by the credit reference agency search in respect of that application and also where the internally generated credit score is below a minimum threshold.

(viii) *Maximum LTV*

Currently, the maximum loan to current market value ("LTV") ratios generally permitted for prospective Borrowers are shown in the table below:

LTV Limits

	<i>Total Mortgage Amount</i>			<i>Graduate Mortgages*</i>
	≤ £300,000	£300,000-£399,999	≥ £400,000	
Capital Repayment Mortgage	95 per cent	90 per cent	80 per cent	£250,000 limit 100 per cent
HomeStart Mortgage	95 per cent	90 per cent	80 per cent	100 per cent
Interest Only Mortgage	80 per cent	80 per cent	80 per cent	100 per cent

* Generally only available for Borrowers who have graduated in the past five years and have opened a graduate service current account with the Seller in the first three years following graduation.

The LTV in respect of a Mortgage will be calculated using the valuation amount (see "– Valuation" above) or, if the Mortgage is being applied for in connection with a house purchase, the lower of the valuation and the purchase price.

Seller's discretion to lend outside its Lending Criteria

On a case-by-case basis, the Seller may decide to provide a Mortgage to a Borrower who does not strictly qualify under its Lending Criteria. A decision to lend outside of the Lending Criteria may be made on the basis of one or more compensating factors, including the extent to which the application falls outside the Lending Criteria, the extent of any existing relationship with the applicant, the stability of the applicant's employment and time in residence at the applicant's current address.

Insurance

Each Borrower is required under the Mortgage Conditions to arrange for insurance on the Mortgaged Property with a reputable insurer.

The Seller has a “properties in possession” policy from HSBC Gibbs Insurance Limited to insure against losses which arise whilst the Seller is a mortgagee in possession. The LLP will be an assignee of the Seller’s rights under this policy to the extent that the policy covers Mortgages which have been assigned to the LLP.

FURTHER ADVANCES

The Seller may make Further Advances to Borrowers from time to time in its discretion, and subject to the underwriting process and Lending Criteria described above.

“**Further Advance**” means a loan (or committed loan facility) which (a) is advanced (or made available by) by the Seller to an existing Borrower under a Mortgage, (b) is secured on the same property as such Mortgage and (c) is not subordinated to that Mortgage.

PRODUCT SWITCHES

The Seller, in its discretion, may agree with a Borrower from time to time to vary the terms and conditions of a Borrower’s Mortgage or an advance in respect of that Mortgage (“**Product Switches**”) without following the underwriting procedures described in this section. Product Switches include changes to the interest rate; reductions in the term of the Mortgage or any advance thereunder (whether as a result of a lump sum repayment of principal or an increase in the relevant Monthly Payment); changing from a HomeStart Mortgage to a Capital Repayment Mortgage or Interest Only Mortgage; and changing from an Interest Only Mortgage to a Capital Repayment Mortgage, and *vice versa*. An LLP Mortgage which is the subject of a Product Switch will not be treated as having been repaid or otherwise moved from the Asset Portfolio in which it is held.

Product Switches do not include any variation which: lengthens the term of a Mortgage or any advance thereunder; changes the Mortgage or advance to a HomeStart Mortgage; results in a change of the relevant Borrower(s); increases the amount outstanding under the Mortgage or advance; involves the change in the legal ownership of the relevant Mortgaged Property or changes the Mortgage or advance to a Product Type which is not an Approved Product Type. In such circumstances, the varied Mortgage or advance will be considered to have refinanced and repaid the original Mortgage or advance.

THE COVER POOL

The Cover Pool will comprise the Mortgage Portfolio (to the extent of the Covered Bond Entitlement) and the Additional Covered Bond Collateral Portfolio. Should an Asset Segregation Event occur, the Cover Pool will (following Asset Segregation and the transfer of Mortgages and Mortgage Portfolio Principal Collections having an aggregate principal value equal to the Covered Bond Entitlement from the Mortgage Portfolio to the Additional Covered Bond Collateral Portfolio) comprise only those assets in the Additional Covered Bond Collateral Portfolio.

PRINCIPAL ASSETS IN THE COVER POOL

The principal assets comprised in the Mortgage Portfolio will be:

- (i) the “**Portfolio Mortgages**”, being Mortgages designated as belonging to the Mortgage Portfolio on the relevant Contribution Date or Mortgage Reassessment Date, together with any Further Advances made in respect of such Mortgages, but excluding Mortgages and any Further Advances which are removed from the Mortgage Portfolio and reassigned to the Seller (see “– *Removal of Mortgages*”, and “*HSBC Share and RMBS Share – Calculation of Shares and Entitlement*”);
- (ii) amounts standing to the credit of the Mortgage Portfolio Account (including any Authorised Investments purchased with such amounts); and
- (iii) any collections or sale proceeds from any of the foregoing.

The assets in the Additional Covered Bond Collateral Portfolio (“**Additional Collateral**”) will principally comprise:

- (i) all Mortgages assigned to the LLP (for so long as they are held by the LLP) which are not Portfolio Mortgages (such Mortgages being “**Additional Collateral Mortgages**”);
- (ii) amounts standing to the credit of the Covered Bond Account (including any Authorised Investments purchased with such amounts);
- (iii) all non-Mortgage Qualifying Additional Collateral assigned to the LLP; and
- (iv) any collections or sale proceeds from any of the foregoing.

Portfolio Mortgages, together with Additional Collateral Mortgages, are referred to as the “**LLP Mortgages**”.

“**Authorised Investments**” means (i) sterling gilt-edged investments and (ii) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits with an authorised institution under the FSMA in any account which earns a rate of interest related to LIBOR) provided that (a) in all cases such investments have a maturity date of 30 days or less and mature on or before the next following Distribution Date and (b) have Top Short Term Ratings.

CONTRIBUTION OF MORTGAGES

The Seller assigned by way of a contribution an initial portfolio of Mortgages (having an aggregate Principal Amount Outstanding of £24.7 billion) to the LLP on 1 November 2006 (the “**Initial Contribution Date**”), all of which were transferred into the Mortgage Portfolio.

Pursuant to the Mortgage Transfer Deed, the Seller may assign further Mortgages which meet the Eligibility Criteria to the LLP on any date other than a date which falls less than two London Business Days after a Calculation Date prior to the occurrence of an Issuer Event of Default or a Servicer Trigger (each a “**Contribution Date**”). These Mortgages will be designated as belonging to the Mortgage Portfolio to the extent that they satisfy the Substitution Criteria (described below) as of the relevant Contribution Date.

The Seller may assign Mortgages to the LLP which do not satisfy the Substitution Criteria as of the relevant Contribution Date. These Mortgages will be designated as belonging to the Additional Covered Bond Collateral Portfolio. The Seller will be permitted from time to time to reassess whether Additional Collateral Mortgages satisfy the Substitution Criteria. If one or more Additional Collateral Mortgages satisfy both the Eligibility Criteria and the Substitution Criteria on a date (other than a date falling less than two London Business Days after a Calculation Date) specified by the Seller (in its sole discretion) (each such date a “**Mortgage Redesignation Date**”), they may be transferred into the Mortgage Portfolio on that date and become Portfolio Mortgages.

The assignment of Mortgages to the LLP will be effected in accordance with a deed entered into between, amongst others, the Seller and the LLP on the Initial Contribution Date (the “**Mortgage Transfer Deed**”). The assignment of English Mortgages and Northern Irish Mortgages will (until transfer of legal title) take effect in equity only. Similarly, the Seller will (until transfer of legal title) transfer only the beneficial interest in Scottish Mortgages, by way of a declaration of trust executed on each Contribution Date. See “– *Perfection of Legal Title*”.

REMOVAL OF MORTGAGES

Breaches

The Eligibility Criteria in respect of each LLP Mortgage will be reassessed by the Seller within 10 Business Days of any the following dates (each a “**Mortgage Reassessment Date**”):

- (i) the Mortgage Redesignation Date of that Mortgage; and
- (ii) the date upon on which a Further Advance secured on the relevant Mortgaged Property is first made available to a Borrower.

In each of the cases referred to above, the Eligibility Criteria will be assessed as of the relevant Mortgage Reassessment Date.

The Seller will be required to accept from the LLP the retransfer of any LLP Mortgage in respect of which the Seller discovers (whether by notice from the LLP or otherwise) that:

- (i) the Mortgage breached the Eligibility Criteria as of the relevant Contribution Date or Mortgage Reassessment Date, as applicable;
- (ii) the Mortgage or any part thereof has been determined by a court judgment or decree on the point or a determination by a relevant regulatory authority (whether or not in relation to that particular Mortgage or an analogous mortgage of another UK mortgage lender) to be unenforceable and/or not to fall within the first ranking charge by way of legal mortgage or standard security over the relevant Mortgaged Property; or
- (iii) there has been any other material breach of representation or warranty under the Mortgage Transfer Deed;

provided that, for so long as any RMBS are outstanding, the Seller will not be permitted to accept the retransfer of a Portfolio Mortgage solely by reason of it being in arrears, or by reason of the relevant Borrower otherwise being recorded as in default under the Mortgage Conditions, as of the relevant Mortgage Reassessment Date, if that Mortgage met the Eligibility Criteria as of the relevant Contribution Date.

The Seller will be required to accept the retransfer as of the end of the Collection Period in which the breach was discovered (or an earlier date if consented to by the Seller, in the Seller’s sole discretion). If the Mortgage was a Portfolio Mortgage at the time of the retransfer, the HSBC Share will be reduced and/or the Seller will be required to make a cash payment to the LLP as described in “*HSBC Share and RMBS Share – Calculation of Shares and Entitlements*”. The LLP will not retransfer any Portfolio Mortgage to the Seller to the extent that the principal amount of the Mortgage exceeds the HSBC Share, unless the Seller makes a payment to the LLP equal to the principal amount then outstanding of that Portfolio Mortgage.

In circumstances where the Seller is required to accept the retransfer of an LLP Mortgage, and a retransfer from the LLP to the Seller is not possible (other than for any of the reasons set out above), the Mortgage will be transferred to the Additional Covered Bond Collateral Portfolio (if originally a Portfolio Mortgage) and assigned a value of zero for the purposes of each Covered Bond Coverage Test and (if applicable) the Amortisation Test.

Certain Events Following Further Advances

The LLP Cash Manager will, on a Business Day prior to each Distribution Date on which there will be any RMBS outstanding, calculate the weighted average foreclosure frequency (the “**WAFF**”), the weighted average loss severity (the “**WALS**”) and the Moody’s portfolio variation test value (the “**MPV**”) for the Portfolio Mortgages (in each case in accordance with criteria agreed with the Rating Agencies from time to time) as of the end of the most recently completed Collection Period. On any date of determination, if the most recent calculation of either the product of the WAFF and WALS or the MPV, in each case as described above, exceeded the corresponding amount calculated as of the most recent RMBS issue date by the relevant margin specified in the RMBS Programme transaction documents, the Seller will be required to accept (within 10 Business Days of such date of

determination) the retransfer of each Further Advance made in respect of a Portfolio Mortgage on that date of determination; provided that all other advances in respect of that Mortgage will remain in the Mortgage Portfolio.

Asset Segregation Events

The LLP will be required, within five Business Days of the delivery by the LLP Security Trustee of written notice of an Asset Segregation Event, to transfer randomly-selected Mortgages from the Mortgage Portfolio to the Additional Covered Bond Collateral Portfolio (“**Asset Segregation**”). The selection of Mortgages for transfer will take place by automated means. The aggregate principal amount of Mortgages selected for transfer will either equal or be less than (but no more than £15,000 less than) the Covered Bond Entitlement. Each Mortgage formerly in the Mortgage Portfolio will thereafter either continue to be held in the Mortgage Portfolio as a Portfolio Mortgage or be held in the Additional Covered Bond Collateral Portfolio as an Additional Collateral Mortgage.

Following the transfer, the principal amount of Portfolio Mortgages will equal (or exceed, by not more than £15,000) the aggregate of the RMBS Share and the Minimum Seller Entitlement. To the extent that the principal amount of Portfolio Mortgages exceeds the aggregate of the RMBS Share and the Minimum Seller Entitlement immediately following the transfer, the LLP will, on the next Distribution Date, pay an amount equal to such excess from principal collections received in respect of the Mortgage Portfolio into the Additional Covered Bond Collateral Portfolio. Such payment will be effected in priority to any other payment required to be made by the LLP in respect of such principal collections. The RMBS Member has no entitlement to any Mortgages or other assets or amounts in the Additional Covered Bond Collateral Portfolio.

The Seller will be prohibited from transferring additional Mortgages into the Mortgage Portfolio following the occurrence of an Asset Segregation Event. See “– *Contribution of Mortgages*” and “– *Substitution Criteria*”.

Each of the following is an “**Asset Segregation Event**”:

- (i) the delivery of a Notice to Pay to the LLP; or
- (ii) the delivery of a Guarantee Acceleration Notice to the LLP.

MORTGAGE ELIGIBILITY CRITERIA

The Seller will make a number of representations and warranties to the LLP in respect of each Mortgage assigned to the LLP, including the following:

- (i) it is repayable in sterling (or, if the Euro has been adopted as the lawful currency of the United Kingdom as of the relevant Contribution Date or Mortgage Reassessment Date, it is denominated in Euro);
- (ii) the final maturity date is no later than 31 December 2056;
- (iii) the principal balance (including any undrawn Further Advances) does not exceed £1,000,000;
- (iv) it was originated in accordance with lending criteria that would be used by a reasonable and prudent mortgage lender lending to borrowers in the United Kingdom (a “**Prudent Lender**”) and, if originated by the Seller, was originated according to the Lending Criteria;
- (v) the relevant Borrower is a natural legal person;
- (vi) the first payment due in respect of the Mortgage has been paid;
- (vii) all principal, interest (including accrued interest and arrears of interest), costs and expenses payable by the relevant Borrower under such Mortgage are secured, subject to completion of any registration or recording which may be pending at H.M. Land Registry, the Registers of Scotland, the Land Registry of Northern Ireland or the Registry of Deeds in Belfast, by a first ranking charge by way of legal mortgage or charge or (if the relevant property is in Scotland) a first ranking standard security over residential property located in the United Kingdom;
- (viii) a valuation report that would be acceptable to a Prudent Lender was obtained in respect of the relevant secured property prior to the first advance of funds under the Mortgage;
- (ix) prior to the first advance of funds under such Mortgage, solicitors were instructed to carry out all investigations, searches and other actions in relation to the relevant secured property that would be acceptable to a Prudent Lender and a report on title was received from such solicitors which, either internally or after further investigation, revealed no material matter which would cause a Prudent Lender, acting reasonably, to decline the Mortgage;

- (x) subject to completion of any registration which may be pending at H.M. Land Registry, the Registers of Scotland, the Land Registry of Northern Ireland or the Registry of Deeds in Belfast, the Seller is the absolute legal and beneficial owner;
- (xi) full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts and proceedings relating to such Mortgage;
- (xii) so far as the Seller is aware, the Borrower is not in material breach of the conditions of such Mortgage as of the relevant Contribution Date;
- (xiii) it is an Approved Product Type;
- (xiv) no payment of scheduled interest or principal has been more than one month in arrears as at the first day of any of the 12 calendar months completed immediately prior to the Contribution Date;
- (xv) the relevant Borrower has a good and marketable title to the relevant Mortgaged Property; and
- (xvi) the Mortgage Conditions require the Borrower to insure the relevant Mortgaged Property.

Each of these representations and warranties will be given as of the relevant Contribution Date for each Mortgage and repeated on each Mortgage Reassessment Date (if any) for that Mortgage. The representations and warranties will be given in respect of each Mortgage as a whole and not in respect of any individual Further Advance. A Mortgage will satisfy the “**Eligibility Criteria**” to the extent that the foregoing representations and warranties given in respect of that Mortgage are correct as of the relevant date.

APPROVED MORTGAGE PRODUCT TYPES

Each of the mortgage products represented in the initial portfolio of Mortgages assigned to the LLP on the Initial Contribution Date (described in “*HSBC Bank plc’s Mortgage Business – Mortgage Product Types offered by the Seller*”) will be “**Approved Product Types**”. Mortgage products secured on residential property but having characteristics and/or features that differ materially from the characteristics and/or features of existing Approved Product Types may become Approved Product Types if the Ratings Condition is satisfied. The Partnership Deed specifies that any attendant changes to the LLP Transaction Documents as are required to effect the inclusion of additional mortgage products as Approved Product Types, including an increase in the Required Minimum Seller Entitlement, will not require consultation with the RMBS Member or a vote by the Covered Bondholders.

MORTGAGE PORTFOLIO SUBSTITUTION CRITERIA

In respect of the assignment of Mortgages from the Seller to the LLP on any Contribution Date, or the transfer of any Mortgages from the Additional Covered Bond Collateral Portfolio to the Mortgage Portfolio on any Mortgage Reassessment Date, the “**Substitution Criteria**” will be met if:

- (i) the Rating Condition is satisfied; or
- (ii) certain criteria set out in the LLP Transaction Documents in respect of the RMBS are satisfied.

As mentioned above, Additional Collateral Mortgages do not need to satisfy the Substitution Criteria and Covered Bondholders should therefore place no reliance on the Substitution Criteria being met for any Mortgage.

PERFECTION OF LEGAL TITLE TO THE MORTGAGES

The assignment of the English Mortgages and Northern Irish Mortgages to the LLP (until the transfer of legal title) takes effect in equity only. The assignment of the Scottish Mortgages to the LLP will be effected by declarations of trust by the Seller. In each case, this means that legal title to the LLP Mortgages will remain with the Seller until certain additional steps are completed, including notification of the assignment or assignation (as appropriate) to the relevant Borrowers and either registration, in the case of English or Northern Irish Mortgages of the transfer of the English or Northern Irish Mortgage at the relevant land registry or deeds office (in the case of registered English or Northern Irish Mortgages) or conveyance of the relevant English or Northern Irish Mortgage in favour of the LLP (in the case of unregistered English or Northern Irish Mortgages), or in the case of Scottish Mortgages, the registration or recording (as appropriate) of the transfer of the Scottish Mortgage at the Registers of Scotland.

Under the Mortgage Transfer Deed, the Seller has agreed to take these steps within 20 Business Days of receiving a request to do so from the LLP or the LLP Security Trustee; however the LLP and the LLP Security Trustee have agreed not to make such a request unless one of the following occurs:

- (i) the delivery of a Notice to Pay to the LLP;
- (ii) unless the Ratings Condition is satisfied, HSBC ceases to be the Servicer and a substitute servicer has yet to be appointed;
- (iii) the Seller and/or the LLP being required, by law or by an order of a court or regulatory authority of competent jurisdiction, to perfect the transfer of legal title to the Portfolio Mortgages;
- (iv) the LLP Security under the LLP Security Deed or any material part of such LLP Security being in jeopardy and it being necessary in the sole opinion of the LLP Security Trustee to perfect the transfer of legal title to the Portfolio Mortgages in favour of the LLP in order to reduce materially such jeopardy;
- (v) the Seller (in its sole discretion) giving written notice to the LLP and LLP Security Trustee requesting such transfer;
- (vi) 50 years having elapsed from the Programme Establishment Date; or
- (vii) the long term, unsecured, unsubordinated, unguaranteed debt securities of the Seller cease to be rated at least BBB- by S&P, Baa3 by Moody's and BBB- by Fitch.

In addition, it may not be possible for there to be a legal assignment of those insurance policies to which the Seller is party or a named beneficiary and in relation to which the LLP has acquired only an equitable interest.

DISPOSAL OF PORTFOLIO MORTGAGES AND THE RMBS SHARE

Subject as provided otherwise in the Partnership Deed and the other LLP Transaction Documents, Portfolio Mortgages may only be sold or otherwise disposed of in the following circumstances:

- (i) by the LLP Security Trustee, following an LLP Event of Default; and
- (ii) by the LLP or the LLP Security Trustee upon the written request of the Seller, provided that:
 - (a) the RMBS Share has been reduced to zero; and
 - (b) either the Covered Bond Entitlement has reduced to zero or there are no Covered Bonds then outstanding.

The RMBS Member will, if any RMBS are issued, grant security over the RMBS Share for the benefit of its creditors. Should such security become enforceable, the RMBS Share may become owned by a person other than the RMBS Member.

CONTRIBUTION OF ADDITIONAL COLLATERAL

The Issuer may contribute the following (“**Qualifying Additional Collateral**”) to the LLP at any time prior to the occurrence of an Issuer Event of Default:

- (i) Mortgages which meet the Eligibility Criteria, but would cause a breach of the Substitution Criteria, on the relevant Contribution Date;
- (ii) deposits to the Covered Bond Account (provided that, if the short term, unsecured, unsubordinated, unguaranteed debt securities of the LLP Account Bank (or the entity guaranteeing the obligations of the LLP Account Bank) are rated less than A-1+ by S&P, then an amount standing to the credit of the Covered Bond Account (equal to the extent to which the aggregate of (a) the amounts standing to the credit of the Covered Bond Account and (b) the Covered Bond Entitlement Percentage of amounts standing to the credit of the Mortgage Portfolio Account exceeds 20 per cent of the Sterling Equivalent of the Principal Amount Outstanding of Covered Bonds) shall be deemed not to be Qualifying Additional Collateral);
- (iii) Top Rated debt securities issued or guaranteed by central governments, central banks, public sector entities, regional governments and local authorities;
- (iv) demand or time deposits, certificates of deposit, and short-term debt obligations (including commercial paper), provided that the relevant obligor or guaranteeing entity is Top Rated; and

- (v) residential mortgage backed debt securities that are Top Rated (but excluding RMBS unless accompanied by a tax opinion from a reputable firm of lawyers with appropriate tax experience confirming there are no adverse tax consequences for the LLP or the RMBS Member should such RMBS be assigned to the LLP),

provided, in each case, that the Issuer has good and marketable title to the relevant asset and, in the case of assets which accrue interest at a rate other than one based on one month LIBOR for Sterling deposits in and/or which are denominated in a currency other than Sterling, the Issuer assigns to the LLP (contemporaneously with the assignment of the relevant asset) all of its right, title and interest under a swap agreement with a suitably-rated counterparty which hedges the relevant asset into Sterling and/or the interest cash flows under the relevant asset into a rate based on LIBOR for one month Sterling deposits, as the case may be. All references to Qualifying Additional Collateral mean such collateral together with all hedges held by the LLP in connection therewith. Additional Collateral other than Mortgages and amounts in the Covered Bond Account will cease to be Qualifying Additional Collateral if the relevant asset or obligor ceases to be Top Rated or, in the case of an asset which has been hedged as described above, the relevant hedge counterparty ceases to have such ratings as have been agreed with the Rating Agencies from time to time which are consistent with the then current ratings of the Covered Bonds. Qualifying Additional Collateral (other than cash and Mortgages) will be transferred to the LLP pursuant to an additional collateral transfer deed and supplements thereto (the “**Additional Collateral Transfer Deed**”).

All Qualifying Additional Collateral contributed to the LLP will be held in the Additional Covered Bond Collateral Portfolio until disposed of as described below. Additional Collateral in the form of debt securities or similar instruments will be held on behalf of the LLP by a securities custodian (the “**Covered Bond Securities Custodian**”) to be appointed pursuant to an agreement entered into between, amongst others, the LLP, the Covered Bond Securities Custodian and the LLP Security Trustee.

“**Top Rated**” means, when used in connection with an investment:

- (i) having an original term to maturity of less than one year, that such investment (or the short term, unsecured, unsubordinated, unguaranteed debt securities of the relevant issuer, obligor or guarantor) is rated A-1+ from S&P, P-1 from Moody’s and F1+ from Fitch (or has such ratings from at least two of the Rating Agencies and the third Rating Agency has been notified of such acquisition and has not provided written notification that such acquisition would result in the downgrade withdrawal or suspension of the then current ratings of the Covered Bonds by that Rating Agency) (“**Top Short Term Ratings**”); and
- (ii) having an original term to maturity of one year or more, that such investment (or the long term, unsecured, unsubordinated, unguaranteed debt securities of the relevant issuer, obligor or guarantor) is rated AAA from S&P, Aaa from Moody’s and AAA from Fitch (or has such ratings from at least two of the Rating Agencies and the third Rating Agency has been notified of such acquisition and has not provided written notification that such acquisition would result in the downgrade withdrawal or suspension of the then current ratings of the Covered Bonds by that Rating Agency) (“**Top Long Term Ratings**”).

CREDIT GIVEN TO NON-MORTGAGE ADDITIONAL COLLATERAL

For the purposes of the Asset Coverage Test and the Amortisation Test, credit will be given to Additional Collateral Mortgages as described in those tests. See “*Features of the Covered Bond Programme – Covered Bond Tests*”. In the case of Additional Collateral other than Mortgages, credit will be given only to the extent of the Adjusted Collateral Value of the relevant asset.

The “**Adjusted Collateral Value**” of any Additional Collateral (other than Mortgages) will equal, as of any Distribution Date:

- (i) in the case of all Additional Collateral which is not Qualifying Additional Collateral as of that date, zero;
- (ii) in the case of Qualifying Additional Collateral in the form of demand deposits or short term securities or other deposits or obligations which will mature on or prior to the next Distribution Date, 100 per cent of the principal amount of such Additional Collateral;
- (iii) in the case of all Qualifying Additional Collateral not referred to in paragraph (ii) above, the market value of such Additional Collateral as calculated by the LLP Cash Manager in accordance with a methodology, and subject to a ‘haircut’, agreed with the Rating Agencies from time to time;

provided that the Adjusted Collateral Value of any Additional Collateral (other than Mortgages) shall be limited to the extent that such collateral is an 'eligible asset' within the meaning of the definition of 'covered bonds' contained in the Capital Requirements Directive comprising Directive 2006/48/EC and Directive 2006/49/EC (the "**Capital Requirements Directive**") and provided further that the aggregate Adjusted Collateral Value of all Additional Collateral (other than Mortgages) shall not exceed the extent to which such Additional Collateral falls within the meaning of 'eligible assets' in that definition, in each case as the same may be amended from time to time.

REMOVAL OF ADDITIONAL COLLATERAL

The LLP will be required, on any Distribution Date, to distribute Additional Collateral to the Issuer to the extent that the Issuer has requested such distribution and the LLP Cash Manager has certified, to the LLP, that either of the following are satisfied (the "**Additional Collateral Release Test**"):

- (i) no Covered Bonds are then outstanding; or
- (ii) all of the following are true:
 - (a) a Notice to Pay Event has not occurred;
 - (b) the distribution would not a breach of either the Asset Coverage Test or the Portfolio Yield Test and would not cause a breach by the Issuer of its obligations in respect of the Pre-Maturity Test;
 - (c) all Covered Bond Senior Expenses due as of that Distribution Date have been paid in full;
 - (d) the amount standing to the credit of the Reserve Fund is no less than the Reserve Fund Required Amount; and
 - (e) a Servicer Termination Event has not occurred (or a Servicer Termination Event has occurred but either such event is no longer continuing or a replacement servicer has been appointed in accordance with the Servicing Agreement).

Following the delivery of a Notice to Pay, Additional Collateral will be sold or otherwise disposed of as described in "*Features of the Covered Bond Programme – The Covered Bond Guarantee*".

SERVICING OF THE LLP MORTGAGES

This section describes, amongst other things, the servicing procedures and practices of the Servicer (the “**Servicing Procedures**”) in connection with the servicing of Mortgages beneficially owned by the Seller. The Servicing Procedures address, amongst other things, the calculation of interest and other amounts payable under the Mortgages, the maintenance of records in respect of the Mortgages, communication with Borrowers, the management of payments from Borrowers and the collections process in respect of Mortgages in arrears. Pursuant to the Servicing Agreement, the Servicer has agreed to service the LLP Mortgages in accordance with the Servicing Procedures and the provisions of the Servicing Agreement, in each case described below. Potential investors should be aware that the Servicing Procedures may change over time as a result of a change in the Servicer’s business practices, legislative or regulatory changes, or business codes of practice.

THE SERVICER

Pursuant to the terms of the Servicing Agreement, HSBC Bank plc will be appointed as the initial Servicer of the LLP Mortgages. The Servicer will perform the day-to-day servicing of the LLP Mortgages from its mortgage service centre and telephone banking and operations centre. The Servicer will continue to service other Mortgages in addition to the LLP Mortgages. The Servicer’s registered office is at 8 Canada Square, London E14 5HQ, United Kingdom.

MONTHLY PAYMENTS

Mortgages offered by the Seller since October of 2004 require all Monthly Payments to be made by direct debit and, as at the date of this Base Prospectus, over 99 per cent of all Monthly Payments which the Seller receives in each month are made by Direct Debit. From time to time, however, Borrowers may cancel their Direct Debit mandates; they may also change the bank at which their current account is held, and the new current account bank may not notify the Servicer of the change in a timely fashion. As a result there can be no assurance that Monthly Payments will be made by Direct Debit in all circumstances; however the Servicer will covenant, pursuant to the Servicing Agreement, to use commercially reasonable measures to ensure that Direct Debit mandates are maintained in respect of each LLP Mortgage.

In some cases, where a Borrower’s Mortgage comprises two or more advances, the Borrower may have established with the Seller individual Direct Debit mandates in respect of each such advance. Each such Direct Debit will be presented to the Borrower’s account bank on the relevant Monthly Payment Date. If two or more Direct Debits in respect of a Mortgage are presented to the Borrower’s Account on the same date and the Borrower (taking account of overdrafts) has sufficient funds to pay only one (or some) of them, but not all, the decision as to which Direct Debits to pay, and which to return unpaid, will be made by the Borrower’s Account Bank and will not be controlled by the Servicer.

The Servicer will undertake, pursuant to the Servicing Agreement, to ensure that all payments due under LLP Mortgages will be made by the relevant Borrower into accounts (each a “**Collection Account**”) held in the name of the Servicer at HSBC Bank plc (in such capacity, the “**Collection Bank**”), and such other accounts which the Servicer may designate from time to time in accordance with the Servicing Agreement. Payments from Borrowers under Mortgages that are beneficially owned by the Seller will also be paid into the Collection Accounts. The Servicer will declare a trust over amounts paid into the Collection Accounts for the benefit of the LLP and the Seller pursuant to an English law declaration of trust made on or about the Initial Contribution Date. The trusts in favour of the LLP are in respect of all amounts credited to the Collection Accounts which represent receipts in respect of LLP Mortgages.

In the case of Monthly Payments that are made by direct debit, the Servicer initially credits the applicable Collection Account with the full amount of the direct debit. If an unpaid direct debit is returned in circumstances where the Servicer has credited to the relevant LLP Account the amount of the Monthly Payment, the Servicer will be permitted to reclaim from the relevant LLP Account the corresponding amounts previously credited.

ARREARS AND DEFAULT PROCEDURES

The Servicer reports that a Mortgage is “**in arrears**” as of any date of determination when the Number of Months in Arrears is equal to or greater than one, save in the circumstances described later in this section.

The “**Number of Months in Arrears**” means, as at the date of determination in respect of a Mortgage, the result of the calculation $(A-B) / C$, where:

- (i) ‘A’ equals the sum of all Monthly Payments in respect of advances under that Mortgage that were due and payable by the relevant Borrower on any due date up to that date of determination;
- (ii) ‘B’ equals the sum of all payments actually made by that Borrower in respect of that Mortgage up to that date of determination (the difference between ‘A’ and ‘B’ being the “**arrears balance**”); and
- (iii) ‘C’ equals the then Monthly Payment in respect of all advances under that Mortgage.

It is therefore possible for a Borrower to make a partial payment equal to less than the full Monthly Payment in respect of a Mortgage advance on any given Monthly Payment Date (or on several consecutive Monthly Payment Dates) without the relevant Mortgage being reported as being in arrears. It is also possible for a Mortgage to be reported as being in arrears notwithstanding that, on the last Monthly Payment Date (or on several consecutive Monthly Payment Dates, including the most recent one), the relevant Borrower made a payment equal to (or in some cases greater than) the then Monthly Payment.

The Servicer will typically notify a Borrower by letter and/or attempt to contact the Borrower by telephone if any Direct Debit is returned unpaid or if the Borrower otherwise fails to pay the full Monthly Payment in respect of a Mortgage advance on the relevant Monthly Payment Date. In the case of Monthly Payments, which are made by Direct Debit, the Servicer will typically re-present the Direct Debit for payment 14 days following the Monthly Payment Date on which the relevant payment was missed. If this Direct Debit is returned unpaid, a further letter will typically be sent to the relevant Borrower and an attempt made to contact the Borrower by telephone. If the Borrower fails, on the second consecutive Monthly Payment Date in respect of that Mortgage advance, to pay the full Monthly Payment then due, the Servicer will typically send a further letter to the Borrower, make further attempts to contact the Borrower by telephone and re-present the Direct Debit for payment 14 days later.

If, at this stage, the Servicer has been unable to contact the Borrower and/or the most recent Direct Debit has been returned unpaid, a member of the Servicer’s specialist mortgage collections team will typically send the Borrower a formal default letter demanding immediate repayment of all amounts due under the relevant Mortgage. If a satisfactory response is not received from the Borrower, the Servicer will generally refer the Mortgage to solicitors to commence formal legal proceedings for possession of the relevant Mortgaged Property.

The courts will have discretion as to whether to grant an order requiring a Borrower to vacate the relevant Mortgaged Property, and to set the terms and/or conditions of any order which it grants. If a Borrower does not voluntarily vacate the relevant Mortgaged Property after a possession order has been granted, a warrant for execution or (in Scotland) ejection, by a court officer of the possession order will be required before the Servicer will be able to obtain possession of that property.

After the Servicer has obtained possession of a Mortgaged Property, it may take any action it considers appropriate, including:

- (i) securing, maintaining or protecting the property and putting it into a suitable condition for sale;
- (ii) creating (other than in Scotland) any estate or interest in the property, including a leasehold;
- (iii) disposing of the property (in whole or in part) or of any interest in the property, by auction, private sale or otherwise, for the best available price in the then current market conditions;
- (iv) letting the property for any period of time (in Scotland, the Servicer is only able to lease the property following enforcement of the relevant Scottish Mortgage in limited circumstances and only for a period not exceeding seven years although it would be open to the Servicer to apply to court for permission to grant a lease for a longer period); and
- (v) carrying out such works on the property as it considers appropriate (which may include the demolition of the whole or any part of it),

in each case, subject to any fiduciary duties which the Servicer may owe to the Borrower.

Prospective investors should note that the Servicer’s ability to exercise its power of sale in respect of a Mortgaged Property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the Servicer’s control, such as whether the Borrower contests

the sale and the market conditions at the time of sale, that may affect the length of time between the Servicer's decision to exercise its power of sale and final completion of the sale. Prospective investors should also note, in relation to Scottish Mortgages, that the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the Borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

In respect of the enforcement of an LLP Mortgage, the Servicer will first apply the proceeds of sale of the relevant Mortgaged Property to pay the costs of enforcement. The remaining proceeds (net of enforcement costs) will be paid to the LLP, first to pay all amounts outstanding in respect of interest and fees, and secondly, in respect of all principal amounts then outstanding, in each case under the relevant Mortgage.

Pursuant to a deed of postponement to be entered into between the Seller and the LLP on or about the Initial Contribution Date (the "**Deed of Postponement**"), to the extent that a Portfolio Mortgage comprises an original advance and one or more Further Advances, and to the extent that one or more such Further Advances have been reassigned by the LLP to the Seller (see "*The Cover Pool – Removal of Mortgages – Further Advances made Following Certain Events*"), the Servicer will apply the net proceeds of enforcement in respect of the relevant Mortgaged Property first to pay or repay, as the case may be, all interest and principal in respect of those Further Advances which are secured on that Mortgaged Property and have not been reassigned to the Seller (in the order described above) and to pay any surplus enforcement proceeds remaining to the Seller in respect of Further Advances by the Seller and other amounts due to it and then the Borrower in accordance with the Servicing Procedures.

If the net proceeds of enforcement in respect of a Mortgaged Property are insufficient to pay (or repay) all amounts of interest, principal and fees due in respect of the relevant Mortgage, the Servicer will be permitted, in its discretion, to pursue the relevant Borrower on an unsecured basis for the deficiency.

The Servicer will retain the discretion to vary the timing of any of the collections activities described above and may, in its discretion, elect to postpone any or all of such actions for an indefinite period. The Servicer may, at any stage of the collections process (both before and at any point following the initiation of formal legal proceedings to obtain a possession order in respect of a Mortgaged Property), enter into arrangements with a Borrower in respect of his or her Mortgage, including:

- (i) arrangements to make each Monthly Payment as it falls due, plus an additional amount to reduce the arrears balance to zero over a period of time;
- (ii) arrangements to pay only a portion of each Monthly Payment as it falls due; and
- (iii) a deferment for a period of time of all payments, including interest and principal or parts of any of them.

The Servicer may vary any of these arrangements from time to time at its discretion, the primary aim being to restore the paying status of the Borrower and recover the arrears.

From time to time, based upon specific individual circumstances, the Servicer may capitalise any arrears amounts outstanding in respect of a Mortgage. In those circumstances, the Servicer will set the arrears balance to zero and the related Mortgage will no longer be considered to be in arrears. The outstanding balance on the Mortgage (including the capitalised amount) will be required to be repaid over the remaining term of such Mortgage. HSBC will be obliged to make a Capital Contribution to the LLP (in cash) equal to the capitalised arrears in respect of any Portfolio Mortgage, and the HSBC Share will be increased by the amount of the arrears capitalised. This contribution will be treated as an interest collection on the Mortgage Portfolio.

THE SERVICING AGREEMENT

Appointment

Each of the LLP and the Seller will appoint HSBC pursuant to the terms of the Servicing Agreement to be their agent to exercise their respective rights, powers and discretions in relation to the LLP Mortgages and to perform their respective duties in relation to such Mortgages. The Servicer will agree to service the LLP Mortgages in the same manner as it administers Mortgages which remain beneficially owned by the Seller, in accordance with the Mortgage Conditions, the Servicing Procedures, and the terms and provisions of the Servicing Agreement.

Subject to the Mortgage Conditions and the Servicing Agreement, the Servicer may do or cause to be done anything which it reasonably considers necessary, convenient or incidental to the servicing of the LLP Mortgages or the exercise of such rights, powers and discretions.

The Servicer has agreed to comply with any reasonable directions, orders and instructions which either the LLP or the Seller may from time to time give to it in accordance with the provisions of the Servicing Agreement (and, in the event of any conflict, those of the LLP will prevail).

Undertakings by the Servicer

Under the terms of the Servicing Agreement, the Servicer has the right and authority to determine, in accordance with the applicable Mortgage Conditions, the HSBC Variable Rate and any other discretionary rates and margins chargeable to Borrowers from time to time in respect of any LLP Mortgages. To the extent that, as of any date of determination, the LLP Cash Manager determines that there will be a shortfall in the amount that will be available:

- (i) to the RMBS Member to pay interest on RMBS (having regard to all sources of funds available to the RMBS Member, including any distributions made to the RMBS Member on the next Distribution Date in respect of collections from the Mortgage Portfolio, any swap transactions entered into by the RMBS Member and any amounts held in bank accounts by the RMBS Member) on the next Distribution Date in accordance with the relevant priority of payments or other provisions of any transaction documents entered into by the RMBS Member which govern the payment of interest on the Related RMBS by the RMBS Member; or
- (ii) following the service of a Notice to Pay, a shortfall in the amount that will be available to the LLP to pay Scheduled Interest when Due for Payment or any Guarantee Acceleration Amount when Due for Payment, as applicable, on the next Distribution Date (having regard to all sources of funds available to the LLP, including collections from and sale proceeds of Additional Collateral, distributions to be made in respect of Covered Bond Entitlement of the HSBC Share in the Mortgage Portfolio on the next Distribution Date, amounts in the Covered Bond Account and amounts to be received in respect of any Covered Bond Basis Swap or Covered Bond Swap),

it will give written notice of such shortfall(s) to the Seller, the LLP, the Servicer and the LLP Security Trustee (and, in the case of a shortfall in respect of the RMBS only, to the RMBS Member) and recommend that the HSBC Variable Rate and other discretionary rates and margins applicable to: (a) the Additional Collateral Mortgages and, if the Covered Bond Entitlement is greater than zero, the Portfolio Mortgages (in the case of a shortfall in respect of the Covered Bond Guarantee) or (b) the Portfolio Mortgages (in the case of a shortfall in respect of the RMBS), as the case may be, be increased to a rate or rates which would, in the Servicer's opinion, need to be set in order for the relevant shortfall to be avoided.

If, following receipt of notice of a shortfall

- (i) in respect of the Covered Bond Guarantee, the Seller and the LLP (or, if a Guarantee Acceleration Notice has been served, the LLP Security Trustee) notify the Servicer that the HSBC Variable Rate and other discretionary rates and margins applicable to the Additional Collateral Mortgages and, if the Covered Bond Entitlement is greater than zero, the Portfolio Mortgages should be increased; or
- (ii) in respect of the RMBS, the RMBS Member and the LLP (or if a Guarantee Acceleration Notice has been served, the LLP Security Trustee) notify the Servicer that the HSBC Variable Rate and other discretionary rates and margins applicable to the Portfolio Mortgages should be increased,

then the Servicer, as agent for and on behalf of the LLP, shall, subject to the Mortgage Conditions and the terms of the Servicing Agreement, take all steps which are necessary to effect the changes in the applicable rates, in each case to the extent and in the manner specified in the notice from the Servicer described above.

Pursuant to the terms of the Servicing Agreement, the Servicer has undertaken, *inter alia*, to:

- (i) take all steps necessary under the Mortgage Conditions and applicable law to notify Borrowers of each change in interest rates, whether due to a change in the HSBC Variable Rate or and other discretionary rates (including any such change effected at the request of, *inter alios*, the

Servicer on behalf of the LLP as described above). The Servicer will also notify the LLP and the LLP Security Trustee of any change in the HSBC Variable Rate or any other discretionary rate;

- (ii) maintain such records as are necessary to enforce each LLP Mortgage against the relevant Borrower(s) (the “**Mortgage Files**”) on behalf of the LLP;
- (iii) provide the LLP and the LLP Security Trustee and their agents and employees with access to the Mortgage Files at their reasonable request during normal business hours;
- (iv) assist the LLP Cash Manager in the preparation of any report that the LLP Cash Manager is required to prepare in respect of the LLP Mortgages under the LLP Cash Management Agreement;
- (v) take all reasonable steps to collect and recover payments due under or in respect of the LLP Mortgages, including instituting proceedings and enforcing any relevant Mortgage in accordance with the Servicing Procedures but having regard to the circumstances of the relevant Borrower(s) in each case; and
- (vi) not knowingly fail to comply with any legal requirements in the performance of its obligations under the Servicing Agreement.

The Servicer may not, at any time, except as described above, set or maintain the HSBC Variable Rate for LLP Mortgages at a rate which is higher than the then prevailing HSBC Variable Rate for Mortgages which are beneficially owned by the Seller.

Redemption

Under the Servicing Agreement, the Servicer will be responsible for handling the procedures connected with the redemption of LLP Mortgages and will be authorised to release any relevant title deeds to the person or persons entitled thereto upon such redemption.

Servicing Fees

The Servicer will be entitled to receive a fee for servicing the LLP Mortgages. On each Distribution Date, the LLP will pay to the Servicer a Servicing Fee. The Servicing Agreement also provides for the Servicer to be reimbursed for all reasonable out-of-pocket expenses and charges properly incurred by the Servicer in the performance of its services under the Servicing Agreement.

Removal or resignation of the Servicer

Pursuant to the Servicing Agreement, the Servicer will undertake that, on the Servicer’s long-term unsecured, unguaranteed and unsubordinated debt obligations ceasing to be rated at least BBB- by S&P, Baa3 by Moody’s and BBB- by Fitch, it will use reasonable efforts to enter into a master servicing agreement (in such form as the LLP and the LLP Security Trustee shall reasonably require) with a third party within 60 days under which such third party will be obliged to undertake the servicing obligations in relation to the LLP Mortgages.

The appointment of the Servicer may be terminated by the LLP, the RMBS Member or the Seller (but, in each case, only with the prior written consent of the LLP Security Trustee) upon the occurrence of certain events (each a “**Servicer Termination Event**”) including:

- (i) failure by the Servicer to pay any amount due and payable by it under the Servicing Agreement and such failure is not remedied for a period of 20 Business Days after the Servicer becomes aware of the default;
- (ii) subject as provided further in the Servicing Agreement, failure by the Servicer to comply with any of its other obligations under the Servicing Agreement where such failure is materially prejudicial to the interests of the holders of Covered Bonds or RMBS and such failure is not remedied for a period of 20 Business Days after the Servicer becomes aware of the default;
- (iii) failure by the Servicer to obtain any necessary licence or regulatory approval required to service mortgages under a UK mortgage regulatory regime; or
- (iv) proceedings are initiated against the Servicer under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws; or a receiver, administrator, trustee or other similar official is appointed in relation to the Servicer or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process is levied or enforced upon or sued out against the whole or a substantial part (having an aggregate book

value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within 30 days; or if the Servicer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, winding up, sequestration, insolvency, bankruptcy, composition, reorganisation or other similar laws or makes a conveyance to, assignment for the benefit of, or enters into any composition with, its creditors generally.

In addition, subject to the fulfilment of certain conditions including (without limitation) that a substitute servicer has been appointed, the Servicer may voluntarily resign by giving not less than twelve months' notice of termination to the LLP, its Members and the LLP Security Trustee.

Upon termination of the appointment of the Servicer, the LLP and the RMBS Member (with the prior written consent of the LLP Security Trustee) will agree to use their reasonable endeavours to appoint a substitute servicer, subject to satisfaction of the Ratings Condition or the passage of an extraordinary resolution of the holders of the Covered Bonds and a like resolution by the holders of RMBS. Any such substitute servicer (whether appointed upon a termination of the appointment of, or the resignation of, the Servicer) will be required:

- (i) if possible, to have experience administering mortgages secured on residential properties in England, Wales Northern Ireland and Scotland; and
- (ii) to enter into an agreement on substantially the same terms as the provisions of the Servicing Agreement.

Forthwith upon termination of the appointment of the Servicer, the Servicer will be required to deliver the Mortgage Files and all books of account and other records maintained by the Servicer relating to the LLP Mortgages to, or at the direction of, the LLP.

Delegation by the Servicer

The Servicer may delegate or sub-contract the performance of any of its obligations or duties under the Servicing Agreement. Upon the appointment of any such delegate or sub-contractor the Servicer will nevertheless remain responsible for the performance of those duties to the LLP and the LLP Security Trustee.

Governing law

The Servicing Agreement is governed by English law.

HSBC SHARE AND RMBS SHARE OF THE MORTGAGE PORTFOLIO

Each of the Seller and the RMBS Member will own partnership interests in the LLP. Payments and Realised Losses in respect of that partnership interest in the Mortgage Portfolio of the LLP are referred to as being “**allocated**” to the HSBC Share or the RMBS Share. This section addresses the allocation of payments and Realised Losses to the HSBC Share or the RMBS Share as the case may be.

HSBC SHARE

Generally

The partnership interest of the Seller in the LLP will, among other things, entitle it to distributions from the interest and principal collections received by the LLP on the Mortgage Portfolio (the “**HSBC Share**”) as described in “*Transaction Cash flows*”. The HSBC Share as of any date will be calculated as described in “– *Calculation of Shares and Entitlements*”.

Any reduction in the HSBC Share will be allocated between the Covered Bond Entitlement and the Minimum Seller Entitlement as described in “– *Entitlements*”.

Entitlements

For the purposes of calculating amounts payable to the Seller, the Partnership Deed provides that the HSBC Share will comprise two entitlements: the “**Covered Bond Entitlement**” and the “**Minimum Seller Entitlement**”. The Covered Bond Entitlement and the Minimum Seller Entitlement will be calculated as described in “– *Calculation of Shares and Entitlements*”.

Overcollateralised Portfolios

The Seller may from time to time transfer Overcollateralised Portfolios into the Mortgage Portfolio, subject to the restrictions described in “*The Mortgage Portfolio-Contribution of Mortgages*”. On the Original Contribution Date of any Overcollateralised Portfolio, the HSBC Share will be increased by the Original Overcollateralised Portfolio Balance of that Overcollateralised Portfolio, provided that a portion of that increase will be specified by the Seller as being the “**Portfolio Overcollateralisation Amount**”. The Mortgages in each Overcollateralised Portfolio will be identified as belonging to that portfolio in the records of the Servicer, and the Portfolio Overcollateralisation Amount will be recorded in the ledger maintained in respect of the relevant Overcollateralised Portfolio by the LLP Cash Manager. On any date, each Portfolio Overcollateralisation Amount will equal that Portfolio Overcollateralisation Amount as of the end of the previous Collection Period, taking into account any Realised Losses that occurred in the relevant Overcollateralised Portfolio as of that Collection Period.

On each Distribution Date, if any Realised Losses have occurred in respect of any Overcollateralised Portfolio during the most recently completed Collection Period, the LLP Cash Manager will first apply such losses to the relevant ledger which records the Portfolio Overcollateralisation Amount, until the Portfolio Overcollateralisation Amount is reduced to zero. Realised Losses incurred in an Overcollateralised Portfolio, to the extent that they exceed the relevant Portfolio Overcollateralisation Amount, will be allocated between the HSBC Share and the RMBS Share in the same manner as any other Realised Losses in the Mortgage Portfolio. See “– *Allocation of Realised Losses*”.

Provided that the Portfolio Overcollateralisation Amount in respect of any Overcollateralised Portfolio has not been reduced below the amount specified, and subject to satisfaction of the Rating Condition, the Seller will be permitted on any Contribution Date or Mortgage Redesignation Date to transfer additional Mortgages into that Overcollateralised Portfolio, provided that the aggregate principal amount of Mortgages outstanding in the Overcollateralised Portfolio is not made to exceed the Original Overcollateralised Portfolio Balance. The Portfolio Overcollateralisation Amount in respect of any Overcollateralised Portfolio will not be increased at any time after the relevant Original Contribution Date.

“**Overcollateralised Portfolio**” means a portfolio of Mortgages identified as such in the records of the Servicer.

“**Original Overcollateralised Portfolio Balance**” means the aggregate principal amount of Mortgages outstanding in an Overcollateralised Portfolio on the relevant Contribution Date.

“**Original Contribution Date**” means, in respect of any Overcollateralised Portfolio, the Contribution Date or Mortgage Redesignation Date, as the case may be, upon which that Overcollateralised Portfolio was transferred into the Mortgage Portfolio.

RMBS SHARE

Purchase Price and Acquisition of Partnership Interest

The RMBS Member will have a partnership interest in the LLP (the “RMBS Share”) which, under the terms of the Partnership Deed, will entitle the RMBS Member to distributions from the interest and principal collections received by the LLP on the Mortgage Portfolio as described in “*Transaction Cash flows*”. The RMBS Share will be calculated as described in “– *Calculation of Shares and Entitlements – RMBS Share*”. The RMBS Member may acquire partnership interest from the Seller from time to time in consideration for cash payments (“**Initial Purchase Price**”) made to the Seller. Such acquisition will reduce the Covered Bond Entitlement of the HSBC Share (and, therefore, the Cover Pool) by the aggregate of the amount of the disposal and, potentially, by a proportional increase in the Minimum Seller Entitlement of the HSBC Share resulting from the increase in the RMBS Share. The Seller will not be permitted to dispose of partnership interest to the RMBS Member if it would cause a breach of the Covered Bond Coverage Tests or if the Rating Condition is not satisfied in respect of such disposition.

CALCULATION OF SHARES AND ENTITLEMENTS

When Calculated

The HSBC Share, the RMBS Share, the Covered Bond Entitlement and the Minimum Seller Entitlement will be calculated by the LLP Cash Manager as of the first day of each Collection Period and recalculated as of each Recalculation Date.

None of the HSBC Share, the RMBS Share, the Covered Bond Entitlement or the Minimum Seller Entitlement may be less than zero at any time.

Each of the following is a “**Recalculation Date**”:

- (i) each date upon which the RMBS Member makes a payment to acquire HSBC Share from the Seller (other than a payment made by the RMBS Member on a Distribution Date to make up principal deficiencies referable to its Related Debt);
- (ii) each date upon which Mortgages are transferred into or out of the Mortgage Portfolio (including as a result of an Asset Segregation Event);
- (iii) each date upon which a HSBC Share Reduction Event occurs; and
- (iv) the date upon which there is any change in the Required Minimum Seller Entitlement.

Each of the following is a “**HSBC Share Reduction Event**”:

- (i) the retransfer of a Portfolio Mortgage to the Seller as described in “*The Mortgage Portfolio – Removal of Mortgages – Breaches*”;
- (ii) the successful set off, by a Borrower, of an amount owed to that Borrower by the Seller against interest and principal due under a Portfolio Mortgage; and
- (iii) the discovery of any of the breaches described in “*The Mortgage Portfolio – Removal of Mortgages – Breaches*” which would cause the Seller to be required to accept the retransfer of a Portfolio Mortgage from the LLP where the relevant Mortgage is incapable of being retransferred and is thereafter to be held in the Additional Covered Bond Collateral Portfolio.

In respect of any HSBC Share Reduction Event, the Seller will be required (in addition to the reduction in the HSBC Share referred to above) to pay to the LLP an amount equal to the unpaid interest accrued on any retransferred Mortgage up to (but excluding) the retransfer date (in the case of (i) above) or the interest component of the Mortgage incapable of being retransferred or set off, as the case may be. The Seller will be required to make this payment in respect of the end of the Collection Period in which the HSBC Share Reduction Event occurs. If the Seller fails to pay this amount, the Partnership Deed provides that on the next Distribution Date the RMBS Member will be entitled to an additional distribution from Mortgage Portfolio Interest Collections otherwise payable to the Seller in an amount equal to the then RMBS Share Percentage multiplied by the relevant interest amount.

To the extent that a reduction in the HSBC Share due to a HSBC Share Reduction Event would result in a Trigger Event, the Seller will be permitted to avoid all or part of the reduction by making a cash payment to the LLP in respect of the end of the Collection Period in which the HSBC Share Reduction Event occurred.

To the extent that the HSBC Share is reduced in circumstances described in (iii) above, or the Seller makes a cash payment in lieu of that reduction, the Partnership Deed provides that the relevant Mortgage will be removed from the Mortgage Portfolio and transferred to the Additional Covered Bond Collateral Portfolio and thereafter all collections of interest and principal on such Mortgage will form part of the Additional Covered Bond Collateral Portfolio.

HSBC Share

The HSBC Share as of the commencement of a Collection Period will equal $A + (B - C) - D$, where:

- (i) 'A' equals the Principal Amount Outstanding of Portfolio Mortgages outstanding as of the end of the most recently completed Collection Period;
- (ii) 'B' equals all Mortgage Portfolio Principal Collections received in respect of the most recently completed Collection Period, together with any amounts retained in the LLP Principal Collections Ledger on the previous Distribution Date;
- (iii) 'C' equals any Mortgage Portfolio Principal Collections that will be distributed to the Seller or the RMBS Member on the Distribution Date following the most recently completed Collection Period; and
- (iv) 'D' equals the then RMBS Share.

As of each Recalculation Date, the HSBC Share will be:

- (i) increased by the Principal Amount Outstanding of each Mortgage transferred into the Mortgage Portfolio as of that date;
- (ii) decreased by the Principal Amount Outstanding of each Mortgage transferred out of the Mortgage Portfolio as of that date;
- (iii) decreased as of that date by the Principal Amount Outstanding of any Portfolio Mortgage which is required to be retransferred to the Seller under the Mortgage Transfer Deed for any of the reasons described in "*The Mortgage Portfolio - Removal of Mortgages - Breaches*", but is incapable of being retransferred and is thereafter to be held in the Additional Covered Bond Collateral Portfolio; and
- (iv) decreased by the amount of partnership interest calculated to be in respect of the Mortgage Portfolio transferred by HSBC to the RMBS Member as of that date.

Any reduction in the HSBC Share will be allocated between the Covered Bond Entitlement and the Minimum Seller Entitlement as described in "*- Entitlements*".

RMBS Share

The RMBS Share as of the commencement of a Collection Period will equal the aggregate of (a) all amounts of Initial Purchase Price paid to the Seller as of the end of the most recently completed Collection Period, (b) all amounts to be paid to the Seller to make up principal deficiencies referable to the Related Debt of the RMBS Member on the Distribution Date following the most recently completed Collection Period and (c) any other amounts of HSBC Share transferred to the RMBS Member as of the end of the most recently completed Collection Period, less the aggregate of the following:

- (i) all principal distributions made, or to be made, by the LLP on the RMBS Share as of the end of the Distribution Date that falls after the most recently completed Collection Period;
- (ii) all Realised Losses allocated, or to be allocated, to the RMBS Share as of the end of the Distribution Date that falls after the most recently completed Collection Period; and
- (iii) any other amounts of RMBS Share retransferred, or to be retransferred, to the Seller by the end of the Distribution Date that falls after the most recently completed Collection Period.

As of each Recalculation Date, the RMBS Share will be:

- (i) increased by the principal amount of payments made to the Seller to acquire HSBC Share as of that date;
- (ii) increased by any other amounts of HSBC Share transferred to the RMBS Member as of that date; and
- (iii) decreased to the extent that any reduction in the HSBC Share due to a HSBC Share Reduction Event which is allocated to the Minimum Seller Entitlement exceeds the then Minimum Seller Entitlement (see "*- Covered Bond Entitlement and Minimum Seller Entitlement*").

In the case of a reduction in the RMBS Share as a result of (iii) above, the Seller will indemnify the RMBS Member by making a payment equal to the amount of such reduction.

Covered Bond Entitlement and Minimum Seller Entitlement

The Covered Bond Entitlement will equal the HSBC Share less the Minimum Seller Entitlement at all times.

The Minimum Seller Entitlement will generally equal the Required Minimum Seller Entitlement. On the Programme Establishment Date, the Required Minimum Seller Entitlement will equal 0 per cent of the RMBS Share, however this percentage may increase in certain circumstances, as described below.

If the HSBC Share is reduced in respect of any Collection Period due to a HSBC Share Reduction Event, the entire amount of the reduction will be allocated to the Covered Bond Entitlement. If this would cause a breach of a Covered Bond Coverage Test, however, the reduction will be allocated between the Minimum Seller Entitlement and the Covered Bond Entitlement (discussed below) in accordance with the following fractions:

- (i) in respect of the Minimum Seller Entitlement, $(A+B) / (A+B+C)$; and
- (ii) in respect of the Covered Bond Entitlement, $C / (A+B+C)$,

where 'A' equals the Minimum Seller Entitlement, 'B' equals the RMBS Share and 'C' equals the Covered Bond Entitlement, in each case as of the date of the HSBC Share Reduction Event. This reduction of the Minimum Seller Entitlement may lead to a Minimum Seller Entitlement Trigger. See "*The LLP – Trigger Events*". Any such allocation to the Minimum Seller Entitlement which exceeds the then Minimum Seller Entitlement will lead to a reduction in the RMBS Share to the extent of the excess.

If the Required Minimum Seller Entitlement increases, the Minimum Seller Entitlement will automatically be increased by the same amount, except to the extent that this would cause a breach of the Covered Bond Coverage Tests. Failure to increase the Minimum Seller Entitlement by the requisite amount in this circumstance may lead to the occurrence of the Minimum Seller Entitlement Trigger. See "*The LLP – Trigger Events*".

The "**Required Minimum Seller Entitlement**" will, at any time, equal the aggregate of:

- (i) zero prior to an HSBC Ratings Trigger or, if an HSBC Ratings Trigger has occurred, the aggregate of the following:
 - (a) the Relevant Set Off Percentage of the RMBS Share; and
 - (b) the RMBS Share Percentage multiplied by 8 per cent (or such other percentage agreed with the Rating Agencies from time to time) multiplied by the Further Advance Capacity multiplied by 3;
- (ii) the aggregate of all Portfolio Overcollateralisation Amounts; and
- (iii) the aggregate of all RMSE Increase Amounts.

The "**Further Advance Capacity**" means, at any time, the aggregate of the amounts (excluding amounts that have already been drawn) that may be drawn by each Borrower under a Portfolio Mortgage at that time.

An "**HSBC Ratings Trigger**" will occur if the ratings of the Seller's long-term debt obligations are rated below A- by S&P or A3 by Moody's or A- by Fitch.

From time to time in connection with the issuance of a series of RMBS, the RMBS Member may, in accordance with the Partnership Deed request that the Required Minimum Seller Entitlement should be increased by an amount in a written notice (each such notice an "**RMSE Increase Notice**") to the LLP and the Seller (with a copy to the LLP Cash Manager and the LLP Security Trustee), provided that the LLP Cash Manager certifies to the Seller and the LLP that: (a) the Rating Condition is satisfied in connection with the proposed increase in the Required Minimum Seller Entitlement, (b) no Notice to Pay Event has occurred and is continuing and (c) the increase would not cause a breach of any of the Covered Bond Coverage Tests, and provided further that the Seller and the LLP consent to such increase, the Required Minimum Seller Entitlement will, for so long as the relevant series of RMBS remains outstanding, be increased by the amount (the "**RMSE Increase Amount**") specified in the relevant RMSE Increase Notice.

Weighted Average Shares

If one or more Recalculation Dates occur during any Collection Period, the LLP Cash Manager will, as of the last day of that Collection Period, calculate the weighted average HSBC Share and/or the weighted average RMBS Share for that Collection Period, weighted by reference to the number of days in each period:

- (i) beginning on (and including) the first day of that Collection Period (in the case of the first such period) or a Recalculation Date (in the case of the second and any subsequent such period); and
- (ii) ending on (and including) the last day of that Collection Period (in the case of the last such period) or, otherwise, ending on (but excluding) the next Recalculation Date.

Share Percentages

On each Distribution Date, the Partnership Deed provides that the LLP will make certain allocations in respect of the partnership interests of the Seller and the RMBS Member in respect of the most recently completed Collection Period in accordance with the HSBC Share Percentage and the RMBS Share Percentage, respectively. See "*Transaction Cash flows*". For the purpose of making such allocations, the "**HSBC Share Percentage**" on any Distribution Date will equal $A / (A + B)$ and the "**RMBS Share Percentage**" will equal $B / (A + B)$, where:

- (i) 'A' is the HSBC Share and 'B' is the RMBS Share, in each case as calculated as of the end of the most recently completed Collection Period (if no Recalculation Date occurred during that Collection Period); or
- (ii) if a Recalculation Date has occurred during the most recently completed Collection Period, 'A' is the weighted average HSBC Share and 'B' is the weighted average RMBS Share as described in "*Weighted Average Shares*".

ALLOCATION OF REALISED LOSSES

Save as provided below, on each Distribution Date, the LLP will allocate all Realised Losses incurred during the most recently completed Collection Period as reducing the partnership interests of the Seller and the RMBS Member *pro rata* in accordance with the HSBC Share Percentage and the RMBS Share Percentage, respectively.

Any Realised Losses allocated to the HSBC Share will be allocated entirely to the Covered Bond Entitlement; provided that, to the extent that the resulting reduction in the Covered Bond Entitlement would cause a breach of any Covered Bond Coverage Test, such Realised Losses will be allocated *pro rata* between the Covered Bond Entitlement and Minimum Seller Entitlement.

Realised Losses incurred in respect of any Overcollateralised Portfolio will be allocated as described in "*HSBC Share – Overcollateralised Portfolios*".

"**Realised Loss**" means a principal loss incurred on a Portfolio Mortgage, as ascertained once all enforcement proceedings in respect of that Mortgage have been completed.

FEATURES OF THE COVERED BOND PROGRAMME

CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until the service by the Bond Trustee on the LLP of a Notice to Pay. The Issuer will not rely on distributions of interest or principal collections on the Cover Pool in order to pay interest or repay principal under the Covered Bonds.

There are a number of features of the Covered Bond Programme which enhance the likelihood of timely and, as applicable, ultimate repayments to Covered Bondholders, as follows:

- (i) the Covered Bond Guarantee;
- (ii) the Pre-Maturity Test is intended to ensure that there is sufficient liquidity available to redeem each Series of Hard Bullet Covered Bonds on the relevant Final Maturity Date;
- (iii) the Asset Coverage Test is intended to ensure that, prior to the service of a Notice to Pay, the assets in the Cover Pool collateralise the obligations of the LLP under the Covered Bond Guarantee to a prescribed extent;
- (iv) the Portfolio Yield Test is intended to ensure that, prior to the service of a Notice to Pay, yield on the Cover Pool is sufficient to meet any interest accruing on the Covered Bonds (taking into account any payments to be received or made under the Covered Bond Basis Swap and the Covered Bond Swap Agreements); and
- (v) the Amortisation Test is intended to ensure that, following the service of a Notice to Pay, the assets in the Cover Pool collateralise the obligations of the LLP under the Covered Bond Guarantee to a prescribed extent.

Certain of these factors are considered more fully in the remainder of this section.

COVERED BOND TESTS

Asset Coverage Test

Under the terms of the Partnership Deed, the LLP and the Seller (in its capacity as Member) must ensure that, as of the last day of each Collection Period, the Adjusted Aggregate Cover Amount equals or exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds (the “**Asset Coverage Test**”).

If the Asset Coverage Test is not satisfied as of the last day of any Collection Period, the LLP (or the LLP Cash Manager on its behalf) will notify the Members, the Bond Trustee and the LLP Security Trustee of the same not later than three Business Days prior to the next Distribution Date. A Notice to Pay Event will occur if the Asset Coverage Test has not been satisfied as of the last day of the next Collection Period.

The “**Adjusted Aggregate Cover Amount**” will equal $P(A + B) + C - (X + Y + Z)$, where:

- (i) ‘P’ equals the Covered Bond Entitlement Percentage;
- (ii) ‘A’ equals, in relation to the Mortgage Portfolio, the lower of:
 - (a) the sum of the Adjusted True Balance of each Portfolio Mortgage (minus any Deemed Reductions); the “**Adjusted True Balance**” of a Mortgage being the lower of (1) the actual True Balance of that Mortgage as calculated as of the relevant date and (2) the Partially Indexed Valuation relating to that Mortgage multiplied by M (where for all Portfolio Mortgages that are less than three months in arrears or not in arrears, $M = 0.75$; for all Portfolio Mortgages that are three months or more in arrears and have a True Balance to Partially Indexed Valuation ratio of less than or equal to 75 per cent, $M = 0.40$; and for all Portfolio Mortgages that are three months or more in arrears and have a True Balance to Partially Indexed Valuation ratio of more than 75 per cent, $M = 0.25$); and
 - (b) the sum of the True Balance of the Portfolio Mortgages (minus any Deemed Reductions) multiplied by the Asset Percentage;
- (iii) ‘B’ equals the aggregate of all principal collections received in respect of the Mortgage Portfolio during the relevant Collection Period, together with any amounts retained in the LLP Principal Collections Ledger on the previous Distribution Date;

- (iv) 'C' equals the aggregate outstanding principal balance of Qualifying Additional Collateral, provided that:
 - (a) the outstanding principal balance of any Mortgage held as Additional Collateral will be adjusted in the manner described under item 'A' above; and
 - (b) the outstanding principal balance of any other Additional Collateral will equal the relevant Adjusted Collateral Value (see "*The Cover Pool – Credit Given to Non-Mortgage Additional Collateral*");
- (v) 'X' equals the Relevant Set Off Percentage multiplied by the aggregate of (1) the Covered Bond Entitlement Percentage multiplied by the True Balance of the Portfolio Mortgages and (2) the True Balance of the Additional Collateral Mortgages, provided that X will equal zero unless, at the relevant time, an HSBC Ratings Trigger has occurred;
- (vi) 'Y' equals the aggregate of (1) the Covered Bond Entitlement Percentage multiplied by 8 per cent (or such other percentage as may be agreed with the Rating Agencies from time to time) multiplied by the Further Advance Capacity multiplied by 3, and (2) 8 per cent (or such other percentage as may be agreed with the Rating Agencies from time to time) multiplied by the Additional Collateral Further Advance Capacity multiplied by 3, provided that Y shall be deemed to be zero unless, at the relevant time, an HSBC Ratings Trigger has occurred; and
- (vii) 'Z' equals the weighted average remaining maturity of all Covered Bonds then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor; provided that if the weighted average remaining maturity of the outstanding Covered Bonds is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one.

For any Mortgage as at any given date, the "**True Balance**" will be the aggregate (but avoiding double counting) of the following less all principal amounts repaid by the relevant Borrower in respect of that Mortgage:

- (i) the aggregate of all principal amounts advanced to the relevant Borrower; and
- (ii) any amount which has been properly capitalised in accordance with the relevant Mortgage Conditions; and
- (iii) any other amount (including, for the avoidance of doubt, accrued interest and arrears of interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions.

The "**Asset Percentage**" means 92.5 per cent or such lesser percentage figure as determined on a quarterly basis in accordance with the Partnership Deed. On or prior to the Distribution Date falling in January, April, July and October of each year, the LLP (or the LLP Cash Manager on its behalf) will calculate, or procure the calculation of, the WAFF and the WALS (and/or such figures calculated in accordance with such alternative methodologies as the Rating Agencies may require) for the Cover Pool Mortgages (or a random sample of such Cover Pool Mortgages) as at the last day of the most recently completed Collection Period. The WAFF and WALS (or other relevant figures) so calculated will be input by the LLP Cash Manager to one or more cash flow models reviewed by the Rating Agencies. Such models, which test the credit enhancement required in various cash flow scenarios, will indicate, on the basis of the latest WAFF and WALS figures (or other relevant figures), the Asset Percentage needed in order to provide credit enhancement to cover all such cash flow scenarios.

The "**Partially Indexed Valuation**" at any date in relation to any Mortgage will be:

- (i) where the latest valuation of the relevant Mortgaged Property is equal to or greater than the indexed valuation as at that date, the indexed valuation; or
- (ii) where the latest valuation of the relevant Mortgaged Property is less than the indexed valuation as at that date, the latest valuation plus 85 per cent of the difference between the latest valuation and the indexed valuation.

The "**Relevant Set Off Percentage**" means a percentage (which will be calculated by the LLP Cash Manager on an annual basis or, following an HSBC Ratings Trigger, on a quarterly basis) equal to the credit balances in accounts held by Borrowers under LLP Mortgages (provided such accounts are held with the Seller) divided by the Principal Amount Outstanding of LLP Mortgages, provided that, if the credit balance of a Borrower's account is greater than the Principal Amount Outstanding of that Borrower's Mortgage, the credit balance in that account shall be deemed to be equal to the

Principal Amount Outstanding of the relevant Mortgage and provided further, following the notification of Borrowers that their Mortgages had been transferred to the LLP, the credit balance in a Borrower's account shall be deemed (for the purposes of this calculation only) not to exceed the credit balance of such account as of the date of notification.

The "**Negative Carry Factor**" means the sum of:

- (i) 0.25 per cent (or such greater amount agreed with the Rating Agencies from time to time); and
- (ii) the average interest rate payable by the LLP in respect of the Covered Bonds or, as applicable, the Covered Bond Swaps (expressed as a positive or negative spread to one month Sterling LIBOR), weighted by both the Sterling Equivalent of the Principal Amount Outstanding and the remaining term to maturity of the Covered Bonds.

"**Deemed Reductions**", will equal, as of any Calculation Date:

- (i) the Adjusted True Balance or True Balance, as applicable, of Mortgages that breached the Eligibility Criteria as of the relevant Contribution Date but which have not yet been retransferred to the Seller; and/or
- (ii) an amount equal to the resulting financial loss incurred by the LLP where the Seller or the Servicer, in any preceding Collection Period, was in breach of any material warranty under the Mortgage Transfer Deed or Servicing Agreement, as applicable.

The "**Additional Collateral Further Advance Capacity**" means, at any time, the aggregate of the amounts (excluding amounts that have already been drawn) that may be drawn by each Borrower under a Mortgage in the Additional Covered Bond Collateral Portfolio at that time.

The "**Sterling Equivalent**" of any amount means (a) in relation to any Series of Covered Bonds which is denominated in a currency other than Sterling, the equivalent of such amount in Sterling, ascertained using the relevant Covered Bond Swap Rate relating to such Series and (b) in relation to a Series of Covered Bonds denominated in Sterling, the applicable amount in Sterling.

"**Covered Bond Swap Rate**" means, in relation to a Series of Covered Bonds denominated in a currency other than Sterling, the exchange rate for such currency in Sterling specified in the relevant Covered Bond Swap Agreement relating to such Series of Covered Bonds or, if no such Covered Bond Swap Agreement is outstanding, the applicable spot rate.

Portfolio Yield Test

The "**Portfolio Yield Test**" will be satisfied as of the last day of any Collection Period if the Covered Bond Interest Cover Amounts (less amounts payable under the Covered Bond Basis Swap, if any) equal or exceed the amount of interest that will accrue on any Covered Bonds or Covered Bond Swap Agreements, as applicable, plus an amount equal to one month's Covered Bond Senior Expenses, during the immediately following Collection Period. If the Portfolio Yield Test is not satisfied as of the last day of any Collection Period, the LLP (or the LLP Cash Manager on its behalf) will notify the Members, the Bond Trustee and the LLP Security Trustee of the same not later than three Business Days prior to the next Distribution Date. A Notice to Pay Event will occur if the Portfolio Yield Test has not been satisfied as of the last day of the next Collection Period.

"**Covered Bond Interest Cover Amounts**" in respect of the last day of any Collection Period will include:

- (i) the Covered Bond Entitlement Percentage of Mortgage Portfolio Interest Collections;
- (ii) interest on any Additional Collateral; and
- (iii) amounts received under the Covered Bond Basis Swap,

in each case, which are expected to be received by the LLP during the relevant Collection Period. The Covered Bond Interest Cover Amounts will be calculated by the LLP Cash Manager relying on estimates provided by the Servicer and the LLP Account Bank, as applicable.

Amortisation Test

The LLP will be required to satisfy the Amortisation Test as of the last day of each Collection Period following the delivery of a Notice to Pay. The "**Amortisation Test**" will be satisfied as of any day if the Amortisation Test Aggregate Asset Amount is at least equal to the Principal Amount Outstanding of the Covered Bonds. Failure of the Amortisation Test after a Notice to Pay has been delivered is an LLP Event of Default.

The “**Amortisation Test Aggregate Asset Amount**” will equal $P(A + B) + C - Z$, where:

- (i) ‘P’ equals the Covered Bond Entitlement Percentage;
- (ii) ‘A’ equals the aggregate Amortisation Test True Balances of the Portfolio Mortgages;
- (iii) ‘B’ equals the aggregate of all principal collections received in respect of the Mortgage Portfolio during the relevant Collection Period, together with any amounts retained in the LLP Principal Collections Ledger on the previous Distribution Date;
- (iv) ‘C’ equals the aggregate of the Amortisation Test True Balance of all Mortgages in the Additional Covered Bond Collateral Portfolio and the Adjusted Collateral Value of all other Additional Collateral (see “*The Cover Pool – Credit Given to Non-Mortgage Additional Collateral*”); and
- (v) ‘Z’ equals the weighted average remaining maturity of all Covered Bonds then outstanding multiplied by the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds multiplied by the Negative Carry Factor; provided that if the weighted average remaining maturity of the outstanding Covered Bonds is less than one, the weighted average shall be deemed, for the purposes of this calculation, to be one.

The “**Amortisation Test True Balance**” of a Mortgage will be the lower of (1) the actual True Balance of the relevant Mortgage as of the last day of the relevant Collection Period multiplied by M and (2) the Partially Indexed Valuation of the relevant Mortgage multiplied by M; provided that ‘M’ will equal 100 per cent for all Mortgages that are not in arrears or less than three months in arrears and 70 per cent for all Mortgages that are three months or more in arrears.

Pre-Maturity Test

On each Business Day which falls in the one year period prior to the Final Maturity Date of any Series of Hard Bullet Covered Bonds, provided that a Notice to Pay has not been delivered (each such Business Day a “**Pre-Maturity Test Date**”), the LLP Cash Manager will determine if the Pre-Maturity Test has been breached.

The “**Pre-Maturity Test**” will be breached on a Pre-Maturity Test Date if:

- (i) the Seller’s short-term, unsecured, unguaranteed and unsubordinated debt obligations cease to be rated at least A-1+ from S&P and the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds is six months or less from the relevant Pre-Maturity Test Date; or
- (ii) the Seller’s short-term, unsecured, unguaranteed and unsubordinated debt obligations cease to be rated at least P-1 from Moody’s and the Final Maturity Date of any Series of Hard Bullet Covered Bonds is six months or less from the relevant Pre-Maturity Test Date; or
- (iii) the Seller’s short-term, unsecured, unguaranteed and unsubordinated debt obligations cease to be rated at least F1+ from Fitch and the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds is six months or less from the relevant Pre-Maturity Test Date.

If the Pre-Maturity Test is breached in respect of a Series of Hard Bullet Covered Bonds less than six months prior to the Final Maturity Date of that Series, the Issuer will be required to ensure that, within 10 Business Days of the breach, the Adjusted Collateral Value of all Additional Collateral (other than Mortgages or Additional Collateral having a final maturity date which is later than the Final Maturity Date of that Series) equals or exceeds the Sterling Equivalent of the Principal Amount Outstanding of such Series. Failure by the Issuer to comply with this requirement will constitute an HSBC Trigger and will lead to Asset Segregation. Following Asset Segregation, and subject to any right of pre-emption enjoyed by the Seller pursuant to the Mortgage Transfer Deed, the LLP will be required to offer to sell Additional Collateral (including Mortgages), such that, within the earlier to occur of (i) 10 Business Days from the date of Asset Segregation and (ii) the Final Maturity Date of that Series, there shall be an amount equal to the aggregate Required Redemption Amount of all Series of Hard Bullet Covered Bonds having a Final Maturity Date on or before the Final Maturity Date of that Series standing to the credit of the Pre-Maturity Liquidity Ledger of the Covered Bond Account.

RESERVE FUND

If at any time prior to the service of a Notice to Pay (and for so long as a Notice to Pay has not been delivered), if the Issuer’s short-term unsecured, unguaranteed and unsubordinated debt obligations are not rated at least A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch, the LLP will be prohibited from paying, on any Distribution Date, any amounts to the Issuer from the Covered Bond

Account, or otherwise making a distribution to the Issuer from the Additional Covered Bond Collateral Portfolio if, following that payment or distribution, the amount standing to the credit of the Reserve Ledger (the “**Reserve Fund**”) will be less than the Reserve Fund Required Amount.

The “**Reserve Fund Required Amount**” will equal:

- (i) if a Notice to Pay has been delivered or the Issuer’s short-term unsecured, unguaranteed and unsubordinated debt obligations are rated A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch, zero; or
- (ii) otherwise, the aggregate of (a) £600,000, (b) the amount that will be due in respect of interest on any Series of Covered Bonds (or under any Covered Bond Swap) on the next Distribution Date, and (c) one month’s Covered Bond Senior Expenses, or such amount as specified by the Rating Agencies.

Following the service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be available to make the payments and provisions specified in the Guarantee Priority of Payments.

A “**Reserve Ledger**” will be maintained by the LLP Cash Manager on behalf of the LLP to record the balance from time to time of the Reserve Fund.

ASSET MONITORING

Under the terms of an asset monitor agreement to be entered into on the Programme Establishment Date between KPMG Audit plc (the “**Asset Monitor**”), the LLP, the LLP Cash Manager and the LLP Security Trustee (the “**Asset Monitor Agreement**”), the Asset Monitor has agreed, subject to due receipt of the information to be provided by the LLP Cash Manager to the Asset Monitor, to conduct independent tests in respect of the calculations performed by the LLP Cash Manager for the Covered Bond Coverage Tests or (following delivery of a Notice to Pay) the Amortisation Test, as applicable, as of the Calculation Date immediately preceding each anniversary of the Programme Establishment Date with a view to verifying the compliance by the LLP with the relevant tests. If the Asset Monitor determines that the Adjusted Aggregate Cover Amount, Covered Bond Interest Cover Amount or Amortisation Test Aggregate Asset Amount calculated by the LLP Cash Manager as of such Calculation Date was misstated by more than one per cent, the Asset Monitor will be required to conduct such tests as of each of the next six Calculation Dates.

The Asset Monitor is entitled, in the absence of manifest error, to assume that all information provided to it by the LLP Cash Manager for the purpose of conducting such tests is true and correct and not misleading in any material respect, and is not required to conduct a test or otherwise take steps to verify the accuracy of any such information. The results of the tests conducted by the Asset Monitor will be delivered to the LLP Cash Manager, the LLP, the Issuer, the Bond Trustee, the LLP Security Trustee and the Rating Agencies.

If the LLP Cash Manager’s long-term unsecured, unguaranteed and unsubordinated debt obligations cease to be rated at least BBB- by S&P, Baa3 by Moody’s or BBB- by Fitch, or if a Covered Bond Coverage Test was breached as of the most recent Calculation Date (but a Notice to Pay has not been delivered), the Asset Monitor will, subject to receipt of the relevant information from the LLP Cash Manager, be required to report on the arithmetic accuracy of the information provided to it by the LLP Cash Manager.

The LLP will pay to the Asset Monitor a fee per test for the tests to be performed by the Asset Monitor in the amount set out in the Asset Monitor Agreement from time to time.

The LLP may, at any time, but subject to the prior written consent of the LLP Security Trustee, terminate the appointment of the Asset Monitor by giving at least 30 days’ prior written notice to the Asset Monitor, provided that such termination may not be effected unless and until a replacement asset monitor has been found by the LLP (such replacement to be approved by the LLP Security Trustee unless the replacement is an appropriate professional adviser of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

The Asset Monitor may, at any time, resign by giving at least 60 days’ prior written notice to the LLP and the LLP Security Trustee (with a copy to the Rating Agencies), provided that such resignation will not take effect unless and until a replacement has been found by the LLP (such replacement to be approved by the LLP Security Trustee unless the replacement is an appropriate professional adviser of national standing (including an accountancy firm)) which agrees to perform

the duties (or substantially similar duties) of the Asset Monitor set out in the Asset Monitor Agreement.

If a replacement asset monitor has not been found by the LLP within 60 days of the notice of termination by the LLP or the notice of resignation by the Asset Monitor, the Asset Monitor may identify a replacement (such replacement to be approved by the LLP Security Trustee, unless the replacement is an appropriate professional adviser of national standing) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement.

Neither the Bond Trustee nor the LLP Security Trustee will be obliged to act as Asset Monitor in any circumstances.

COVERED BOND GUARANTEE

Notice to Pay Events

The LLP will not be required to make any payments to the holders of Covered Bonds until the Bond Trustee delivers a notice (a “**Notice to Pay**”) to the LLP which states that amounts have become payable under the Covered Bond Guarantee.

The Bond Trustee will deliver a Notice to Pay to the LLP not later than one Business Day following the occurrence of any of the following events (each a “**Notice to Pay Event**”):

- (i) the delivery of an Issuer Acceleration Notice by the Bond Trustee following an Issuer Event of Default;
- (ii) the occurrence of any HSBC Trigger (other than the occurrence of an Issuer Event of Default);
- (iii) notification by the LLP (or the LLP Cash Manager on its behalf) that either the Asset Coverage Test or the Portfolio Yield Test is breached as of the last day of any Collection Period and the same is not remedied as of the last day of the next Collection Period; or
- (iv) the occurrence of an LLP Event of Default and the service of a Guarantee Acceleration Notice on the LLP.

The occurrence of a Notice to Pay Event will lead to Asset Segregation (see “*The Cover Pool – Removal of Mortgages – Asset Segregation Events*”).

Payment Obligations

Under the terms of the Covered Bond Guarantee, the LLP has irrevocably agreed to pay (or procure to be paid), following the delivery of a Notice to Pay, all Guaranteed Amounts which are Due for Payment to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders). The LLP has agreed that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and (following the delivery of a Notice to Pay on the LLP) unconditional, irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce such provisions or the waiver, modification or consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons (as the case may be) or the obtaining of any judgment or decree against the Issuer or any action to enforce such provisions or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

The obligations of the LLP under the Covered Bond Guarantee shall be limited to the amounts available to make such payments from funds credited to the Covered Bond Account on any Distribution Date (including the amounts of any proceeds received in respect of the Cover Pool).

All payments of Guaranteed Amounts by or on behalf of the LLP will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other governmental charges of whatever nature, unless the withholding or deduction of such taxes, assessments or other governmental charges are required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

“Guaranteed Amounts” means, in respect of each Series of Covered Bonds:

- (i) prior to the delivery of a Guarantee Acceleration Notice:
 - (a) all Scheduled Interest in respect of that Series;
 - (b) all Scheduled Principal in respect of that Series; and
 - (c) the Final Redemption Amount in respect of that Series; and
- (ii) after the delivery of a Guarantee Acceleration Notice, the Guarantee Acceleration Amount in respect of that Series,

provided, for the avoidance of doubt, Guaranteed Amounts shall equal zero prior to the service of a Notice to Pay on the LLP.

“Scheduled Interest” means, in respect of each Series on any date, an amount equal to the interest (excluding any additional amounts relating to premiums, default interest or interest upon interest (**“Excluded Scheduled Interest Amounts”**)) which:

- (i) has not been paid by the Issuer; and
- (ii) either:
 - (a) prior to service of an Issuer Acceleration Notice, is due and payable by the Issuer in respect of that Series on that date; or
 - (b) following service of an Issuer Acceleration Notice, would have been due and payable by the Issuer in respect of that Series on that date had an Issuer Acceleration Notice not been served;

and, for the avoidance of doubt, includes (in the case of a Series the Final Redemption Amount of which is paid on a date other than the relevant Final Maturity Date) accrued but unpaid interest to the date upon which the relevant Final Redemption Amount is actually paid.

“Scheduled Principal” means, in respect of each Series on any date, an amount equal to the amount in respect of principal (other than the Final Redemption Amount) in respect of that Series (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**“Excluded Scheduled Principal Amounts”**)) which:

- (i) has not been paid by the Issuer; and
- (ii) either:
 - (a) prior to service of an Issuer Acceleration Notice, is due and payable by the Issuer in respect of that Series on that date; or
 - (b) following service of an Issuer Acceleration Notice, would have been due and payable by the Issuer in respect of that Series on that date had an Issuer Acceleration Notice not been served.

“Guarantee Acceleration Amount” means, in respect of each Series of Covered Bonds on any date, the Early Redemption Amount of that Series plus all amounts then due but unpaid in respect of that Series on that date (including Excluded Scheduled Interest Amounts and Excluded Scheduled Principal Amounts, whenever the same arose) and all other amounts then payable by the LLP under the Trust Deed.

A Guaranteed Amount in respect of a Series shall be **“Due for Payment”**:

- (i) in the case of any Scheduled Interest or any Scheduled Principal, on the date upon which it was originally due for payment by the Issuer or, if later, the day which is two Business Days following the delivery of a Notice to Pay to the LLP;

- (ii) in the case of the Final Redemption Amount:
 - (a) the relevant Final Maturity Date; or
 - (b) the relevant Extended Final Maturity Date, but only if that Series is subject to an Extended Final Maturity Date pursuant to the applicable Final Terms and the LLP or the LLP Cash Manager on its behalf determines that the LLP will have insufficient funds to pay that amount on the earlier to occur of:
 - (1) the later of (A) the day that falls two Business Days after delivery of a Notice to Pay to the LLP and (B) the Final Maturity Date (after the expiry of the grace period set out in Condition 8(b)(i)); and
 - (2) the Extension Determination Date (being the date falling three Business Days after the expiry of seven days from, and including, the Final Maturity Date of the relevant Series); and
- (iii) in the case of any Guarantee Acceleration Amount, the date upon which a Guarantee Acceleration Notice is delivered to the LLP.

Subject to the Guarantee Priority of Payments, the LLP will be permitted, following delivery of a Notice to Pay (but prior to the delivery of a Guarantee Acceleration Notice), to pay the Final Redemption Amount in respect of a Series subject to an Extended Final Maturity Date pursuant to the applicable Final Terms on any Interest Payment Date following the relevant Final Maturity Date but prior to such amount becoming Due for Payment.

Sale of Collateral after Delivery of a Notice to Pay

After a Notice to Pay has been served on the LLP, the LLP will be obliged to sell Selected Collateral in respect of the Earliest Maturing Covered Bonds in accordance with the Partnership Deed, subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Transfer Deed in respect of selected Mortgages. The proceeds from any such sale will be credited to the Covered Bond Account and applied in accordance with the Guarantee Priority of Payments or the Covered Bond Post-Enforcement Priority of Payments, as applicable.

To the extent that the Selected Collateral includes Additional Collateral Mortgages, the LLP will be required to ensure that such Additional Collateral Mortgages are selected on a random basis; to the extent that it includes debt securities and similar instruments, the LLP will be permitted to sell earlier maturing instruments (together with their related hedges, as applicable) in preference to later-to-mature instruments, in each case as described in the LLP Security Deed.

The LLP will offer the Selected Collateral for sale to purchasers for the best price reasonably available but, save as provided below, for an amount not less than the “**Adjusted Required Redemption Amount**”, being the Sterling Equivalent of the Required Redemption Amount, less the difference between the Available Liquid Asset Amount and the Estimated Priority Amount. If the Selected Collateral has not been sold (in whole or in part) in an amount equal to the Adjusted Required Redemption Amount by the date which is six months prior to (where the Covered Bonds are not subject to an Extended Final Maturity Date) the Final Maturity Date or (where the Covered Bonds are subject to an Extended Final Maturity Date) the Extended Final Maturity Date, as applicable, of the Earliest Maturing Covered Bonds, then the LLP will offer the Selected Collateral for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

To the extent that the Selected Collateral includes Fixed Rate Mortgages, then the Covered Bond Basis Swap will partially terminate in respect of such Fixed Rate Mortgages and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of such Selected Collateral, or such Covered Bond Basis Swap will be partially novated to the purchaser of such Fixed Rate Mortgages, and such purchaser will thereby become party to a separate Covered Bond Basis Swap transaction with the relevant Covered Bond Basis Swap Provider.

The LLP (subject to the rights of pre-emption enjoyed by the Seller pursuant to the Mortgage Transfer Deed) will be permitted to offer to sell Selected Collateral, in accordance with the provisions summarised above, in respect of Series of Covered Bonds other than the Earliest Maturing Covered Bonds.

The LLP will through a tender process appoint a portfolio manager of recognised standing in asset disposals on a basis intended to incentivise the portfolio manager to achieve the best price for the

sale of the Selected Collateral (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Collateral to purchasers (except where the Seller is the assignee of Mortgages which are Selected Collateral in accordance with its right of pre-emption in the Mortgage Transfer Deed). The appointment of the portfolio manager shall be approved by the LLP Security Trustee.

In respect of any sale of Selected Collateral following service of a Notice to Pay on the LLP, the LLP will instruct such portfolio manager to use all reasonable endeavours to procure that Selected Collateral is sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time, the dates upon which the Final Redemption Amount in respect of any Series will be Due For Payment and the terms of the LLP Security Deed.

The terms of any sale and purchase agreement with respect to the sale of Selected Collateral (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the LLP Security Trustee. The LLP Security Trustee will give its consent if the LLP Security Trustee has agreed to the appointment of the portfolio manager and the LLP has certified that it has chosen the Selected Collateral as described above.

The LLP Security Trustee will not be required to release the Selected Collateral from the LLP Security unless the conditions relating to the release of the LLP Security (as described under "*Security Granted by the LLP – Release of LLP Security*") are satisfied.

"Selected Collateral" means Additional Collateral Mortgages and any Additional Collateral having a final maturity date which falls after the Target Date (as defined below) having, in aggregate, a Liquidation Value equal to the greater of zero and $(A - B) \times (C/D)$, where:

- (i) 'A' equals the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds;
- (ii) 'B' equals the Available Liquid Asset Amount;
- (iii) 'C' equals the Liquidation Value of all Additional Collateral; and
- (iv) 'D' equals the Sterling Equivalent of the Required Redemption Amount of all Covered Bonds then outstanding.

The "**Required Redemption Amount**" in respect of any Series of Covered Bonds will equal $A \times (1 + (B \times C))$, where 'A' equals the Principal Amount Outstanding of that Series, 'B' equals the Negative Carry Factor and 'C' equals a fraction, the numerator of which is the number of days to maturity of the relevant Series and the denominator of which is 365.

"Earliest Maturing Covered Bonds" means, at any time, the Series of Covered Bonds in respect of which the Final Redemption Amount will first become Due for Payment, together with all other Series the Final Redemption Amount in respect of which will become Due for Payment on the same date (ignoring, prior to a Guarantee Acceleration Event, any possible acceleration of amounts due under any Series of Covered Bonds).

"Available Liquid Asset Amount" means, at any time, the Adjusted Collateral Value of all Qualifying Additional Collateral (including amounts standing to the credit of the Covered Bond Account but excluding Mortgages) the final maturity date of which falls prior to the Final Maturity Date of the Earliest Maturity Covered Bonds (the "**Target Date**") less the Estimated Priority Amount.

"Estimated Priority Amount" means, at any time, the aggregate of all amounts estimated by the LLP Cash Manager to be payable on any Distribution Date prior to the Target Date in respect of amounts ranking higher than the Guaranteed Amounts under the Guarantee Priority of Payments or the Covered Bond Post-Enforcement Priority of Payments, as applicable, any swap termination amounts and any amounts payable on a partial novation of the Covered Bond Basis Swap or the payable to or by the LLP in respect of the relevant Series of Covered Bonds.

"Liquidation Value" means the True Balance (in the case of Mortgages) or the principal balance outstanding (in the case of other Additional Collateral).

ISSUANCE TESTS

The Issuer will be permitted to issue new Series of Covered Bonds from time to time, provided that the following conditions are satisfied at the time of the issuance:

- (i) no Notice to Pay Event has occurred or would occur as a result of the issuance;

- (ii) the Rating Condition is satisfied; and
- (iii) not less than two London Business Days have elapsed since the end of the most recently completed Collection Period.

The Issuer will not be required to provide prior notice to, permit any prior review by or obtain the consent of any Covered Bond holder to issue any additional Covered Bond.

The “**Rating Condition**” will be satisfied in respect of an action or omission if the Issuer, the LLP, the Bond Trustee and/or the LLP Security Trustee, as applicable, has received written confirmation from each of the Rating Agencies then rating the Covered Bonds and the RMBS that such action or omission will not result in the downgrade, withdrawal or suspension of the then current ratings assigned by that Rating Agency to any outstanding Series of Covered Bond or any series of RMBS (provided that the Rating Condition will be deemed to be satisfied in the case of a Rating Agency if the Issuer, the LLP, the Bond Trustee and/or the LLP Security Trustee, as applicable, notify that Rating Agency of the relevant proposed act or omission and do not receive, within 10 Business Days, written notification from that Rating Agency that the proposed act or omission will result in the downgrade, withdrawal or suspension of the then current ratings assigned by that Rating Agency).

HEDGING

General

Interest collections from the Cover Pool Mortgages will fluctuate according to the interest rates applicable to such Mortgages, as described in “*HSBC Bank plc’s Mortgage Business*”; however, interest on the Covered Bonds will be calculated on other bases.

The Covered Bond Basis Swap

To protect against the possible variance between the interest that the LLP will receive from the Cover Pool Mortgages and the amounts that it will be required to pay in respect of interest under the Covered Bond Guarantee, the LLP will enter into certain interest rate hedging arrangements (the “**Covered Bond Basis Swap**”) with the Covered Bond Basis Swap Provider pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency-Cross Border) (as published by ISDA) (together with the schedule and confirmation relating thereto, the “**Covered Bond Basis Swap Agreement**”) between the LLP and the Covered Bond Basis Swap Provider. The Covered Bond Basis Swap will hedge a notional amount (equal to the Sterling Equivalent of all Covered Bonds then outstanding) of the Cover Pool Mortgages into one month LIBOR for Sterling deposits plus an agreed margin for each Product Type. The Covered Bond Basis Swap may hedge only part of the potential variance between the rates payable on the Cover Pool Mortgages and one month LIBOR, subject to Rating Agency confirmation to the Bond Trustee that the same would not adversely affect the ratings then assigned to any Series of Covered Bonds.

The Covered Bond Swaps

In order to hedge its potential currency and interest rate exposure under the Covered Bond Guarantee in respect of each Series of Covered Bonds denominated in a currency other than Sterling or in respect of which interest accrues at a rate other than one month LIBOR for deposits in Sterling, the LLP will enter into one or more transactions with each Covered Bond Swap Provider pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency-Cross Border) (as published by ISDA) (together with the schedule and confirmation relating thereto, a “**Covered Bond Swap Agreement**”) between the LLP and such Covered Bond Swap Provider (the “**Covered Bond Swaps**”) and, together with the Covered Bond Basis Swap, the “**Swaps**”). Under the Covered Bond Swap in respect of each Series, the LLP will pay the relevant Covered Bond Swap Provider an amount calculated (on a notional amount equal to the Sterling Equivalent of the relevant Series) by reference to one month LIBOR for Sterling deposits and the Covered Bond Swap Provider will pay the LLP an amount calculated (on a notional amount equal to the Principal Amount Outstanding, in the relevant Specified Currency, of the Series then outstanding) by reference to the interest rate payable under the relevant Series. If the Covered Bond Swap is a currency swap, the LLP and the relevant Swap Provider will also be required to make certain payments in respect of principal.

Downgrade of Swap Provider and Swap Termination Events

Pursuant to the terms of the Covered Bond Basis Swap Agreement and the Covered Bond Swap Agreements (together, the “**Swap Agreements**”), in the event that the relevant ratings of the Covered Bond Basis Swap Provider or any Covered Bond Swap Provider (or its respective guarantor, as applicable) (together, the “**Swap Providers**”) is or are downgraded by a Rating Agency below the

required ratings specified in the relevant Swap Agreement and, where applicable, as a result of such downgrade, the then current ratings of any outstanding Covered Bonds would be adversely affected, the relevant Swap Provider will, in accordance with and pursuant to the terms of the relevant Swap Agreement, be required to take certain remedial measures which may include one or more of the following: (i) providing collateral for its obligations under the relevant Swap; (ii) arranging for its obligations under the relevant Swap Agreement to be transferred to a replacement swap provider with the ratings required by the Rating Agencies (as specified in the relevant Swap Agreement); (iii) procuring another entity with the ratings required by the relevant Rating Agency (as specified in the relevant Swap Agreement) to become co-obligor in respect of its obligations under the relevant Swap; and/or (iv) taking such other actions as the relevant Swap Provider may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP (subject to certain conditions) to terminate the relevant Swap.

Other circumstances in which a Swap Agreement may terminate include, *inter alia*, the following (each a “**Swap Early Termination Event**”): (i) failure by either party to pay any amounts due and payable under the relevant Swap (subject to certain grace periods, certain deferral mechanisms and other provisions specified in the Swap Agreements); (ii) the occurrence of certain insolvency events with respect to either party; (iii) a breach of a provision of the relevant Swap Agreement which is not remedied within the applicable grace period; and (iv) a change of law that results in the obligations of one of the parties becoming illegal. A Covered Bond Swap may also provide for termination upon redemption of the relevant Series. A Covered Bond Swap Agreement may provide that non-payment by the LLP of any amounts due in respect of the relevant Swap will not constitute a Swap Early Termination Event. In such circumstances, the relevant Covered Bond Swap Provider will be obliged to make payments to the LLP notwithstanding any non-payment by the LLP. Any amounts due and remaining unpaid by the LLP to the relevant Covered Bond Swap Provider in such circumstances may result in additional amounts in respect of interest being due to such Covered Bond Swap Provider.

Upon the occurrence of a Swap Early Termination Event, the LLP or the relevant Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be calculated by reference to market quotations (or loss in the event that a market quotation cannot be obtained in accordance with the Covered Bond Basis Swap Agreement or would produce a commercially unreasonable result) for entering into a replacement swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties under the relevant Swap but for the occurrence of the relevant early termination date.

In the event that a Swap is terminated (other than as a result of the redemption in full of any Series of Covered Bonds), the LLP Cash Manager shall use its commercially reasonable best endeavours to arrange the entry by the LLP into a replacement Swap on terms acceptable to the Rating Agencies and the Bond Trustee, with a swap provider whom the Rating Agencies have previously confirmed in writing to the LLP and the Bond Trustee will not cause the then current ratings of any Covered Bonds to be downgraded, withdrawn or qualified.

Withholding

All payments to be made by either party under a Swap Agreement are to be made without deduction or withholding for or on account of any tax unless such deduction or withholding is required by applicable law (as modified by the practice of any relevant governmental tax authority). If the LLP is required to make such a deduction or withholding from any payment to be made by it under a Swap Agreement, the LLP will not be obliged to make any additional payment to the relevant Swap Provider in respect of any amounts so deducted or withheld. If a Swap Provider is required to make such a deduction or withholding from any payment to be made by it under the relevant Swap Agreement, the sum to be paid by that Swap Provider will be increased to the extent necessary to ensure that, after any such deduction or withholding is made, the amount received by the LLP is equal to the amount that it would have received had such deduction or withholding not been made.

Backing Swaps

As the liability of the LLP to make payments of the Guaranteed Amounts is contingent, it has no requirement for the proceeds of the Covered Bond Basis Swap or any Covered Bond Swap prior to the service of a Notice to Pay. Consequently, the LLP will enter into equal and opposite swap agreements (each a “**Backing Swap**”) with HSBC (in this capacity, the “**Backing Swap Provider**”), pursuant to which the LLP will pay to the Backing Swap Provider (in aggregate, across all Backing

Swaps) an amount equal to all amounts that the LLP receives under the Covered Bond Basis Swap and each Covered Bond Swap, and the Backing Swap Provider will pay to the LLP (or, at the direction of the LLP, to the Covered Bond Basis Swap Provider and/or each Covered Bond Swap Provider) all amounts which the LLP is required to pay to such Swap Provider(s). Each Backing Swap will terminate upon delivery of a Notice to Pay, without any termination payment being payable by either party.

SECURITY GRANTED BY THE LLP

Pursuant to the terms of the LLP Security Deed the obligations of the LLP in respect of the Covered Bonds under the Covered Bond Guarantee and all other obligations of the LLP under or pursuant to the LLP Transaction Documents to which it is a party, including in respect of the RMBS Member are secured, *inter alia*, by the following security (the “LLP Security”) over the following property, assets and rights (the “Charged Property”):

- (i) a first fixed charge (which may take effect as a floating charge) over the LLP’s interest in the Portfolio Mortgages and other related rights comprised in the Mortgage Portfolio;
- (ii) a first fixed charge (which may take effect as a floating charge) over the LLP’s interest in the Mortgages and other Additional Collateral comprised in the Additional Covered Bond Collateral Portfolio;
- (iii) an assignment by way of first fixed charge over all of the LLP’s interests, rights and entitlements under and in respect of any LLP Transaction Document to which it is a party;
- (iv) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (v) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments purchased from time to time from amounts standing to the credit of the LLP Accounts;
- (vi) a first floating charge governed by English law over all the assets and undertaking of the LLP (including all of its property, assets, rights and revenues as are situated in Scotland or governed by Scots law or as are situated in Northern Ireland or governed by Northern Irish law) and not, from time to time, subject to a valid fixed charge in favour of the LLP Security Trustee pursuant to the LLP Security Deed; and
- (vii) an assignation in security of the LLP’s interest in the Scottish Mortgages (comprising the LLP’s beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust).

The obligations of the LLP to make payments under the Covered Bond Guarantee are limited to amounts received by the LLP in respect of the Cover Pool and the LLP will not be obliged or permitted to utilise its other assets to make such payments. In addition, the provisions of the LLP Security Deed result in the proceeds of enforcement of the LLP Security which is available to the Covered Bondholders being limited to the proceeds of the Charged Property that forms part of the Cover Pool (and no other assets of the LLP).

Covered Bondholders should be aware that the proceeds of the Charged Property which does not relate to the Cover Pool will not be available to Covered Bondholders upon enforcement of the LLP Security.

Release of LLP Security

In the event of any assignment or assignation (as appropriate) of Mortgages (including Selected Collateral) by the LLP pursuant to and in accordance with the LLP Transaction Documents, such Mortgages will be released from the LLP Security created by and pursuant to the LLP Security Deed on the date of such assignment but only if in the case of the sale of Selected Collateral, the Selected Collateral being sold has been selected on a random basis.

In the event of the retransfer of a Mortgage from the LLP to the Seller pursuant to and in accordance with the LLP Transaction Documents, such Mortgage will be released from the LLP Security created by and pursuant to the LLP Security Deed on the date of the retransfer.

Enforcement

If a Guarantee Acceleration Notice is served on the LLP, the LLP Security Trustee shall be entitled to appoint a Receiver, and/or enforce the LLP Security (including selling the Mortgages), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds received by the LLP Security Trustee from the enforcement of the LLP Security in respect of the Cover Pool will be applied in accordance with the Covered Bond Post-Enforcement Priority of Payments described under “*Transaction Cashflows – Covered Bond Post-Enforcement Priority of Payments*”.

TRANSACTION CASHFLOWS

This section describes the payments that will be made on each Business Day in respect of interest and principal collections from the Mortgage Portfolio and the Additional Covered Bond Collateral Portfolio. It also describes the payments that the LLP will make on each Distribution Date, both prior to and following the delivery of a Notice to Pay.

As described under “*Features of the Covered Bond Programme – Credit Structure*”, until a Notice to Pay is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer will be liable to make payments when due on the Covered Bonds, whether or not the Issuer has received any corresponding payment from the LLP.

DATES AND PERIODS

“**Business Day**” means each day which is a TARGET Settlement Day and upon which banks are open for business in both London and New York.

“**Calculation Date**” means the 10th day of each calendar month, provided that the first Calculation Date (the “**First Calculation Date**”) will be 10 December 2006.

“**Collection Period**” means each period from (but excluding) a Calculation Date to (and including) the next Calculation Date; provided that the first Collection Period will be the period from (and including) the Initial Contribution Date to (and including) the First Calculation Date.

“**Distribution Date**” means the Distribution Date in respect of each Collection Period will be the 20th day of the calendar month in which such Collection Period ends or, if such day is not a Business Day, the next Business Day.

“**Interest Payment Date**” means in relation to any Fixed Rate Covered Bond, such date or dates as indicated in the applicable Final Terms as a “Fixed Interest Payment Date” and, in relation to any Floating Rate Covered Bond or Inflation-Linked Interest Covered Bond, either:

- (a) the date which falls the number of months or other period specified as the “**Specified Period**” in the applicable Final Terms after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or
- (b) such date or dates as are indicated in the applicable Final Terms.

“**London Business Day**” means each day upon which banks are open for business in London.

SHARE AND ENTITLEMENTS USED ON DISTRIBUTION DATES

Except where stated in this “*Transaction Cashflows*” section, allocations in respect of the Mortgage Portfolio on each Distribution Date will be made on the basis of the RMBS Share, the HSBC Share, the Covered Bond Entitlement and the Minimum Seller Entitlement, as the case may be, in each case as of the end of the most recently completed Collection Period. See “*HSBC Share and RMBS Share – Calculation of Shares and Entitlements*”.

All allocations in respect of the Additional Covered Bond Collateral Portfolio will be made on the basis that only the Seller has a partnership interest therein.

DAILY CASH FLOWS

Mortgage Portfolio

The LLP Cash Manager (acting on information provided by the Servicer) will be required to transfer all Mortgage Portfolio Interest Collections and all Mortgage Portfolio Principal Collections from the Servicer’s collection account(s) into the Mortgage Portfolio Account within two London Business Days of the Servicer’s receipt thereof (or, in the case of amounts required to be paid by the Seller to the LLP in respect of a HSBC Share Reduction Event, as of the time specified in “*HSBC Share and RMBS Share – Calculation of Shares and Entitlements*”). Mortgage Portfolio Interest Collections will be credited to the LLP Interest Collections Ledger and all Mortgage Portfolio Principal Collections to the LLP Principal Collections Ledger.

“**Mortgage Portfolio Interest Collections**” means any interest payment received by the Servicer in respect of any Portfolio Mortgage, whether as all or part of a monthly payment by a Borrower on the relevant Mortgage, on redemption (in whole or part), on enforcement or on disposal of the Mortgage or otherwise (including pursuant to any insurance policy), and includes:

- (i) payments from the Seller in respect of (a) accrued interest on Portfolio Mortgages which have been retransferred to the Seller, (b) the interest component of any set off successfully asserted by a Borrower in respect of a Portfolio Mortgage, in each case as described in “*HSBC Share and RMBS Share – Calculation of Shares and Entitlements*” and (c) any amount paid by the Seller to the LLP in respect of capitalised interest arrear under a Portfolio Mortgage, as described in “*Servicing of the LLP Mortgages – Arrears and Default Procedures*”; and
- (ii) any interest paid or investment proceeds earned on amounts within the Mortgage Portfolio Account.

“**Mortgage Portfolio Principal Collections**” means principal payments received by the Servicer in respect of any Portfolio Mortgage, whether as all or part of a monthly payment by a Borrower on the relevant Mortgage, on redemption (in whole or part), on enforcement or on disposal of the Mortgage or otherwise (including pursuant to any insurance policy), and includes payments from the Seller (a) in lieu of a reduction in the HSBC Share and (b) in respect of the principal component of any set off successfully asserted by a Borrower in respect of a Portfolio Mortgage, in each case as described in “*HSBC Share and RMBS Share – Calculation of Shares and Entitlements*”.

Additional Covered Bond Collateral Portfolio

The LLP Cash Manager (acting on information provided by the Servicer) will be required to credit to the Covered Bond Account all interest and principal collections received in respect of Additional Collateral Mortgages in the Additional Covered Bond Collateral Portfolio within two London Business Days of the payment of such collections into the Servicer’s collection account(s). The LLP Cash Manager will also be required to credit (or procure the crediting of) any amounts received in respect of any other Additional Collateral (including interest payments, principal repayment and net sale or disposition proceeds) to the Covered Bond Account within two London Business Days of the receipt of such amounts.

MONTHLY CASHFLOWS

Order of Operations

On each Distribution Date, the LLP will (amongst other things), distribute interest and principal collections from the Mortgage Portfolio between the HSBC Share and the RMBS Share in accordance with the Mortgage Portfolio Interest Priority of Payments and the Mortgage Portfolio Principal Priority of Payments, respectively. Amounts so paid to the Issuer will be credited to the Covered Bond Account.

Following the application of collections from the Mortgage Portfolio (amongst other things):

- (i) if a Notice to Pay has not been delivered, the LLP will distribute all amounts standing to the credit of the Covered Bond Account in accordance with the Pre-Notice to Pay Priority of Payments;
- (ii) if a Notice to Pay has been delivered, but a Guarantee Acceleration Event has not occurred, the LLP will distribute all amounts standing to the credit of the Covered Bond Account in accordance with the Guarantee Priority of Payments; or
- (iii) If a Guarantee Acceleration Event has occurred, the LLP will distribute all amounts standing to the credit of the Covered Bond Account in accordance with the Covered Bond Post-Enforcement Priority of Payments.

Mortgage Portfolio Interest Collections

On each Distribution Date, the LLP Cash Manager will apply all Mortgage Portfolio Interest Collections credited to the LLP Interest Collections Ledger which were received in respect of the most recently completed Collection Period, less all Third Party Amounts paid during that period, in the following order of priority (the “**Mortgage Portfolio Interest Priority of Payments**”):

- (i) *first*, to pay all Senior LLP Expenses then due, *pari passu* and *pro rata* with the amounts then owing in respect thereto;
- (ii) *secondly*, to distribute all Mortgage Portfolio Interest Collections that remain *pari passu* on the RMBS Share and the HSBC Share, *pro rata* in accordance with the RMBS Share Percentage and the HSBC Share Percentage, respectively.

All amounts paid in respect of the HSBC Share pursuant to the Mortgage Portfolio Interest Priority of Payments will be paid into the Covered Bond Account; amounts paid in respect of the RMBS Share will be paid to the RMBS Member.

“**Third Party Amounts**” means any amount which the LLP Cash Manager determines (in its sole discretion) as having been incorrectly paid into the Mortgage Portfolio Account during any Collection Period. The LLP Cash Manager, with notification from the Servicer, may withdraw Third Party Amounts from the Mortgage Portfolio Account at any time during a Collection Period and pay them to the person who is entitled to them.

“**Senior LLP Expenses**” means the amounts then due and owing, or payable prior to the immediately following Distribution Date, by the LLP to the LLP Security Trustee, the Servicer, the LLP Cash Manager, the LLP Account Bank, certain costs and expenses of the Liquidation Member, in each case under the relevant LLP Transaction Documents.

Mortgage Portfolio Principal Collections

On each Distribution Date, the LLP Cash Manager will apply all Mortgage Portfolio Principal Collections credited to the LLP Principal Collections Ledger in respect of the most recently completed Collection Period, together with any amounts retained in the LLP Principal Collections Ledger on the previous Distribution Date (together, the “**Available LLP Principal**”), in the following order of priority (the “**Mortgage Portfolio Principal Priority of Payments**”):

- (i) *first*, to pay, as a distribution on the HSBC Share, an amount equal to the lesser of (a) the Covered Bond Entitlement Percentage of Available LLP Principal and (b) the Covered Bond Required Principal Amount;
- (ii) *secondly*, to pay the RMBS Member, as a distribution on the RMBS Share, an amount equal to the lesser of (a) the RMBS Share (which shall take into account any Realised Losses recorded against the RMBS Share on that Distribution Date) and (b) the RMBS Required Principal Amount, provided that, for the purposes of (a) above, the RMBS Share shall exclude any Portfolio Overcollateralisation Amounts, except to the extent that the relevant conditions applying to repayment are satisfied as of that Distribution Date;
- (iii) *thirdly*, to pay the Seller as a distribution on the HSBC Share (which shall take into account any Realised Losses recorded against the HSBC Share), until the HSBC Share is reduced to the Required Minimum Seller Entitlement;
- (iv) *fourthly*, if the RMBS Share is greater than zero (taking account of any Realised Losses allocated on that Distribution Date and the distribution in paragraph (ii) above), to retain in the LLP Principal Collections Ledger an amount equal to the sum of the RMBS Share and the Required Minimum Seller Entitlement, in each case taking account of any Realised Losses allocated on that Distribution Date and the distribution in paragraph (ii) above; and
- (v) *fifthly*, to pay any amounts that remain to the Seller as a distribution on the HSBC Share (which shall take into account any Realised Losses allocated on that Distribution Date).

All amounts to be paid to the Seller will be paid into the Covered Bond Account. In addition, on each Distribution Date the LLP Cash Manager will apply all amounts representing principal received in respect of the most recently completed Collection Period with regard to the Additional Covered Bond Collateral Portfolio by crediting the same to the Covered Bond Account.

“**Covered Bond Entitlement Percentage**” means, for the purposes of distributing funds on each Distribution Date, the Covered Bond Entitlement as of the end of the most recently completed Collection Period, divided by the aggregate of the RMBS Share and the HSBC Share, in each case as of the end of the most recently completed Collection Period, expressed as a percentage and, for the purpose of calculating the Covered Bond Interest Cover Amounts as of the last day of any Collection Period, the Covered Bond Entitlement as of the first day of the next Collection Period, divided by the aggregate of the RMBS Share and the HSBC Share, in each case as of the first day of the next Collection Period.

“**Covered Bond Required Principal Amount**” in respect of any Distribution Date will be zero, unless a Trigger Event or a Notice to Pay Event has occurred as of the end of the most recently completed Collection Period, in which case the Covered Bond Required Principal Amount will equal the Covered Bond Entitlement (taking into account any Realised Losses allocated on that Distribution Date).

The “**RMBS Required Principal Amount**” in respect of any Distribution Date will equal the greater of zero and the amounts required by the RMBS Member to pay principal on the RMBS in accordance with the RMBS transaction documents.

Pre-Notice to Pay Priority of Payments

Prior to service of a Notice to Pay on the LLP, the Partnership Deed provides that:

- (i) the LLP/or the Issuer on its behalf will pay all Covered Bond Senior Expenses. The amounts payable by the LLP in respect of the Covered Bond Basis Swap and each Covered Bond Swap will equal the amounts receivable by the LLP under each Backing Covered Bond Swap; and
- (ii) the LLP (or the LLP Cash Manager on its behalf) will be required, at the request of HSBC, to make distributions of interest and/or principal (including distributions in kind) to HSBC in respect of the Additional Covered Bond Collateral Portfolio to the extent the distribution would not cause a breach of any Additional Collateral Release Test (such payments to constitute the “**Pre-Notice to Pay Priority of Payments**”).

In making such payments and distributions, the LLP will utilise, first, amounts credited to the Covered Bond Account that do not represent principal in respect of the Cover Pool and, secondly, amounts that represent principal. Amounts distributed that represent principal in respect of the Cover Pool will reduce the amount of the Cover Pool and the partnership interest of the Seller will be reduced by the same amount.

“**Covered Bond Senior Expenses**” means all amounts owing to the Asset Monitor, the Paying Agents, the Agent Bank, the Registrar(s), the Common Safekeeper, the Covered Bond Securities Custodian and the Bond Trustee.

Guarantee Priority of Payments

On each Distribution Date after the service of a Notice to Pay on the LLP, but prior to a Guarantee Acceleration Event, the LLP or the Cash Manager on its behalf will apply moneys standing to the credit of the Covered Bond Account to make the following payments and provisions in the following order of priority (the “**Guarantee Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (i) *first*, to pay *pari passu* and *pro rata* in accordance with the amounts then owing thereto, the following:
 - (a) all amounts due and payable or to become due and payable to the Bond Trustee prior to the immediately succeeding Distribution Date under the provisions of the Trust Deed together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (b) all amounts due and payable or to become due and payable to the LLP Security Trustee prior to the immediately succeeding Distribution Date under the provisions of the LLP Security Deed together with interest and plus any applicable VAT (or similar taxes) thereon as provided therein;
- (ii) *secondly, pro rata and pari passu*:
 - (a) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the LLP Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the LLP prior to the immediately succeeding Distribution Date and to pay and discharge any liability of the LLP for Taxes;
 - (b) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer prior to the immediately succeeding Distribution Date under the provisions of the Servicing Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (c) any remuneration then due and payable to the LLP Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the LLP Cash Manager prior to the immediately succeeding Distribution Date under the provisions of the LLP Cash Management Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;

- (d) amounts (if any) due and payable to the LLP Account Bank (including costs) pursuant to the terms of the LLP Account Bank Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (e) any amounts (including costs and expenses) due and payable to the Corporate Services Providers pursuant to the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (f) any amounts due and payable to the Asset Monitor (other than the amounts referred to in paragraph (viii) below) pursuant to the terms of the Asset Monitor Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (g) any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Agency Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (iii) *thirdly*, to pay all amounts then due to the Covered Bond Basis Swap Provider (other than the Excluded Swap Termination Amounts);
- (iv) *fourthly*, to pay *pro rata* and *pari passu*, according to the respective amounts thereof:
- (a) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment or will become Due for Payment prior to the immediately succeeding Distribution Date under the Covered Bond Guarantee in respect of each Series of Covered Bonds;
 - (b) amounts due and payable to the relevant Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
- (v) *fifthly*, to pay or provide for, *pro rata* and *pari passu*, according to the respective amounts thereof:
- (a) the amounts (in respect of principal) due and payable to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of the relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement;
 - (b) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal and/or any Final Redemption Amount that (in each case) is Due for Payment or will become Due for Payment prior to the immediately succeeding Distribution Date under the Covered Bond Guarantee in respect of each Series of Covered Bonds,
- (vi) *sixthly*, to credit the Covered Bond Account for application on the next following Distribution Date in accordance with the priority of payments described in paragraphs (i) to (v) (inclusive) above, unless either all Covered Bonds have been fully repaid or the balance of the Covered Bond Account equals the aggregate Required Redemption Amount of each Series of outstanding Covered Bonds;
- (vii) *seventhly*, to pay any Excluded Swap Termination Amount and other amounts then due to a Covered Bond Swap Provider or the Covered Bond Basis Swap Provider, *pari passu* and *pro rata* in accordance with the amounts then owing to it;
- (viii) *eighthly*, towards payment of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (ix) *ninthly*, to pay any amounts that remain to the Seller as a distribution in respect of its partnership interest in accordance with the Partnership Deed.

“**Excluded Swap Termination Amount**” means in relation to a Swap Agreement, an amount equal to the greater of zero and:

- (A) the amount of any termination payment due and payable (i) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (ii) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider; less
- (B) the amount, if any, received by the LLP from a replacement Swap Provider upon entry by the LLP into an agreement with such replacement Swap Provider to replace such Swap which has been terminated as a result of such Swap Provider Default or Swap Provider Downgrade Event.

“**Corporate Services Providers**” means the LM Corporate Services Provider and the Jersey Corporate Services Provider.

“**Corporate Services Agreements**” means the Liquidation Member Corporate Services Agreement and the Jersey Corporate Services Agreement.

“**Covered Bond Swap Provider Default**” means the occurrence of an Event of Default (as defined in the Covered Bond Swap Agreements) where the relevant Covered Bond Swap Provider is the Defaulting Party (as defined in the relevant Covered Bond Swap Agreement) other than a Covered Bond Swap Provider Downgrade Event.

“**Covered Bond Swap Provider Downgrade Event**” means the occurrence of an Additional Termination Event or an Event of Default (each as defined in the relevant Covered Bond Swap Agreement) following a failure by the Covered Bond Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Covered Bond Swap Agreement.

Covered Bond Post-Enforcement Priority of Payments

Under the terms of the LLP Security Deed, each of the LLP Secured Creditors has agreed that all moneys received or recovered by the LLP Security Trustee or any other Secured Creditor (whether in the administration or liquidation of the LLP or otherwise), in respect of the Cover Pool following the occurrence of an LLP Event of Default and service of an Guarantee Acceleration Notice on the LLP will be applied following the enforcement of the LLP Security in the following order of priority (the “**Covered Bond Post-Enforcement Priority of Payments**”) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of:
 - (a) all amounts due and payable or to become due and payable to the Bond Trustee under the provisions of the Trust Deed together with interest and, plus any applicable VAT (or similar taxes) thereon as provided therein; and
 - (b) to the extent not paid on that Distribution Date under (i) of the Mortgage Portfolio Interest Priority of Payments, all amounts due and payable or to become due and payable to the LLP Security Trustee and any Receiver appointed by the LLP Security Trustee under the provisions of the LLP Security Deed with respect to the Cover Pool together with interest and, plus any applicable VAT (or similar taxes) thereon as provided therein;
- (ii) *secondly*:
 - (a) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (b) any remuneration then due and payable to the LLP Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the LLP Cash Manager under the provisions of the LLP Cash Management Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (c) amounts (if any) due and payable to the LLP Account Bank (including costs) pursuant to the terms of the LLP Account Bank Agreement, plus any applicable VAT (or similar taxes) thereon as provided therein;
 - (d) amounts (including costs and expenses) due to the Corporate Services Providers pursuant to the terms of the Corporate Services Agreements, plus any applicable VAT (or similar taxes) thereon as provided therein; and

- (e) any remuneration then due and payable to the Agent Bank and the Paying Agents under or pursuant to the Agency Agreement plus any applicable VAT (or similar taxes) thereon as provided therein;
- (iii) *thirdly*, in or towards satisfaction of any amounts due and payable to the Covered Bond Basis Swap Provider (including any termination payment due and payable under the Covered Bond Basis Swap Agreement but excluding any Excluded Swap Termination Amount pursuant to the terms of the Covered Bond Basis Swap Agreement);
- (iv) *fourthly*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
 - (a) the Guarantee Acceleration Amount to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent for payment to of the Covered Bondholders *pro rata* and *pari passu*; and
 - (b) the amounts due and payable to each Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Series of Covered Bonds (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement but excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement,
- (v) *fifthly*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any Excluded Swap Termination Amount due and payable by the LLP under any Swap Agreement; and
- (vi) *sixthly*, any remaining moneys shall be distributed to the Seller pursuant to the Partnership Deed.

TERMS AND CONDITIONS OF THE COVERED BONDS

The following (disregarding any sentences in italics) is the text of the terms and conditions applicable to the Covered Bonds, which, as supplemented or varied in accordance with the provisions of the relevant Final Terms, will be incorporated by reference into each Global Covered Bond and which will be endorsed on the Covered Bonds in definitive form (if any) (“Definitive Covered Bonds”) issued in exchange for Global Covered Bonds representing each Series, details of the relevant Series being as set out in the relevant Final Terms. The Final Terms in relation to any Series may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with such terms and conditions, replace or modify the following terms and conditions for the purpose of such Series.

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by HSBC Bank plc (the “**Issuer**”) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated on or about 1 November 2006. The “**Programme Establishment Date**” is 1 November 2006. The Trust Deed is made between the Issuer, HSBC Mortgage Limited Liability Partnership as guarantor (the “**LLP**”), Law Debenture Trust Company of New York as bond trustee (in such capacity, the “**Bond Trustee**”, which expression shall include any successor as Bond Trustee) and Law Debenture Trust Company of New York as LLP Security Trustee (in such capacity, the “**LLP Security Trustee**”, which expression shall include any successor as LLP Security Trustee).

Save as provided for in Conditions 8 (*Events of Default and Enforcement*) and 12 (*Meetings of Covered Bondholders, Modifications, Waiver and Substitution*), references herein to the “**Covered Bonds**” shall mean:

- (i) in relation to any Covered Bonds represented by a global covered bond (a “**Global Covered Bond**”), units of the lowest denomination specified in the relevant Final Terms (“**Specified Denomination**”) in the currency specified in the relevant Final Terms (“**Specified Currency**”);
- (ii) any Global Covered Bond; and
- (iii) any definitive Covered Bonds issued in exchange for a Global Covered Bond.

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated the Programme Establishment Date and made between, *inter alios*, the Issuer, the LLP, the Bond Trustee, HSBC Bank plc as the initial Principal Paying Agent (the “**Principal Paying Agent**” which expression shall wherever the context so admits include its successors as such, and, together with any successor or additional paying agent appointed in respect of the Covered Bonds, the “**Paying Agents**”, which expression shall wherever the context so admits include any additional and/or successor paying agents), Registrar (the “**Registrar**”), initial agent bank and initial calculation agent (the “**Agent Bank**” which expression shall wherever the context so admits include any successor or additional person appointed as such in respect of the Covered Bonds), and as the calculation agent (the “**Calculation Agent**” which expression shall wherever the context so admits include any successor or additional person appointed as such in respect of the Covered Bonds) each named therein.

The Bond Trustee shall exercise the duties, power, trusts, authorities and discretions vested in it by the Trust Deed separately in relation to each Series of Covered Bonds in accordance with the provisions of the Trust Deed.

The Bond Trustee acts for the benefit of the holders for the time being of the Covered Bonds (the “**Covered Bondholders**”, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), and for holders of each other Series of Covered Bonds in accordance with the provisions of the Trust Deed.

Copies of the Trust Deed, the LLP Security Deed, the Agency Agreement and each of the other LLP Transaction Documents are available for inspection during normal business hours at the principal office for the time being of the Bond Trustee being at 31st Floor, 767 Third Avenue, New York, New York, 10017 and at the specified office of each of the Principal Paying Agent and the other Paying Agents (if any), appointed from time to time pursuant to the terms of the Agency Agreement. Copies of the applicable Final Terms for all Covered Bonds of each Series (including in relation to unlisted Covered Bonds of any Series) are obtainable during normal business hours at the specified office of each of the Principal Paying Agent and the other Paying Agents (if any), appointed from time to time pursuant to the terms of the Agency Agreement and any Covered Bondholder must

produce evidence satisfactory to the Issuer and the Bond Trustee or, as the case may be, the relevant Paying Agent as to its holding of Covered Bonds and identity.

The Covered Bondholders, the holders for the time being of any Receipts (“**Receiptholders**”) and Coupons (“**Couponholders**”) are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Trust Deed, the Programme Agreement, the Agency Agreement, each of the LLP Transaction Documents (as defined below) and the applicable Final Terms which are applicable to them and to have notice of each Final Terms relating to each other Series.

Interest-bearing definitive Covered Bonds have (unless otherwise indicated in the applicable Final Terms) interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talons**”) attached on issue. Any reference in these Conditions to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Covered Bonds repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

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

As used herein, “**Tranche**” means an issue of Covered Bonds which are issued on the same date (each an “**Issue Date**”) and which are identical in all respects (including as to listing), and “**Series**” means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices. The “**Master Definitions and Construction Agreement (LLP Documents)**” means the master definitions and construction agreement between, *inter alia*, the LLP, the LLP Security Trustee, the Issuer, the RMBS Member, the Servicer and the LLP Cash Manager dated on or about the Initial Contribution Date. The “**Master Definitions and Construction Agreement (Covered Bond Documents)**” means the master definitions and construction agreement between, *inter alia*, the LLP, the LLP Security Trustee, the Issuer, and the Bond Trustee dated on or about and on or about the Programme Establishment Date. “**LLP Transaction Documents**” means the Partnership Deed, the Mortgage Transfer Deed, each Additional Collateral Transfer Deed, the LLP Cash Management Agreement, the Servicing Agreement, Master Definitions and Contribution Agreement (LLP Documents), the Trust Deed, Master Definitions and Contribution Agreement (Covered Bond Documents) and the LLP Security Deed.

The LLP has, in the Trust Deed, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds when such amounts become Due for Payment, but only after service of a Notice to Pay on the LLP.

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

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

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Conditions shall bear the meanings given to them in the applicable Final Terms and/or the Trust Deed, a copy of each of which may be obtained as described above.

1. Form, Denomination and Title

(a) Form

Covered Bonds are issued in bearer form (“**Bearer Covered Bonds**”) or in registered form (“**Registered Covered Bonds**”), as set out in the relevant Final Terms.

(b) ***Form of Bearer Covered Bonds***

Bearer Covered Bonds will be in substantially the relevant form (subject to amendment and completion) scheduled to the Trust Deed or in such other form as from time to time may be agreed. Interest-bearing Bearer Covered Bonds will, if so specified in the relevant Final Terms, have attached at the time of their initial delivery Coupons, presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Interest-bearing Bearer Covered Bonds will also, if so specified in the relevant Final Terms, have attached at the time of their initial delivery a Talon exchangeable for further Coupons and the expression “Coupons” shall, where the context so requires, include Talons.

(c) ***Form of Registered Covered Bonds***

Registered Covered Bonds will be in substantially the relevant form (subject to amendment and completion) scheduled to the Trust Deed or in such other form as may from time to time be agreed.

(d) ***Denomination***

Subject to any redenomination provisions in the Final Terms, Covered Bonds will be in the denomination(s) (each of which denominations must be integrally divisible by each smaller denomination) set out in the relevant Final Terms.

Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

(e) ***Interest Basis of Covered Bonds***

A Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Inflation-Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Final Terms.

(f) ***Redemption/Payment Basis of Covered Bonds***

A Covered Bond may be repaid by reference to an index of inflation (an “**Inflation-Linked Redemption Covered Bond**”), an Instalment Covered Bond, a Partly Paid Covered Bond, a Covered Bond that may pay principal and/or interest in more than one currency as specified in the relevant Final Terms (a “**Dual Currency Redemption Covered Bond**”) or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Interest-bearing Definitive Covered Bonds will, if so specified in the relevant Final Terms, have attached at the time of their initial delivery Coupons, presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Interest-bearing Definitive Covered Bonds will also, if so specified in the relevant Final Terms, have attached at the time of their initial delivery a Talon exchangeable for further Coupons and the expression “Coupons” shall, where the context so requires, include Talons. In the case of a covered bond that is issued at a discount and bears no interest (a “**Zero Coupon Covered Bond**”) references to Coupons and Couponholders in these Conditions are not applicable.

(g) ***Instalment Covered Bonds***

Covered Bonds of which the principal amount is repayable by instalments (“**Instalment Covered Bonds**”) which are Definitive Covered Bonds will have endorsed thereon a grid for recording the repayment of principal or will, if so specified in the relevant Final Terms, have attached thereto at the time of their initial delivery, payment receipts (“**Receipts**”) in respect of the instalments of principal. References to Receipts and Receiptholders in these Conditions are only applicable to Instalment Covered Bonds.

(h) ***Hard Bullet Covered Bonds***

Covered Bonds may be issued on the basis they will be repaid in full on a specified date (“**Hard Bullet Covered Bonds**”). There will be no grid recording principal and no payment receipts attached in respect of payment of principal to any Definitive Covered Bonds which are Hard Bullet Covered Bonds.

(i) ***Partly Paid Covered Bonds***

Covered Bonds may be issued on a partly paid basis (“**Partly Paid Covered Bonds**”) if so specified in the relevant Final Terms and any further or alternative terms applicable thereto shall be as set out in the relevant Final Terms.

(j) ***Title***

Title to Bearer Covered Bonds, Coupons and Talons will pass by delivery.

Title to Registered Covered Bonds passes by registration in the register which is kept by the Registrar.

References herein to the “**Holders**” of Bearer Covered Bonds or of Coupons are to the bearers of such Bearer Covered Bonds or such Coupons and references herein to the “**Holders**” of Registered Covered Bonds are to the persons in whose names such Registered Covered Bonds are so registered in the register.

To the extent permitted by law and subject to the provisions of Condition 11(a), while the Covered Bonds of any Series are represented by a Covered Bond or Covered Bonds in global form, the Issuer, the Principal Paying Agent, any other Paying Agents, the Transfer Agents, the Agent Bank and the Registrar(s) may deem and treat the Holder of any Bearer Covered Bond or of any Coupon and the Holder of any Registered Covered Bond (and, if more than one, the first named thereof) as the absolute owner thereof (whether or not such Covered Bond shall be overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment on account thereof and for all other purposes.

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

(k) ***Delivery***

Each new Registered Covered Bond to be issued upon the transfer of a Registered Covered Bond will, within five Relevant Banking Days (as defined in the Regulations referred to in Condition 1(m) (*Regulations concerning transfer and registration of Registered Covered Bonds*)) of the transfer date (as defined in the Regulations referred to in Condition 1(m) (*Regulations concerning transfer and registration of Registered Covered Bonds*)), be available for delivery at the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent or (at the request and risk of the Holder of such Registered Covered Bond) be mailed by uninsured post to such address as may be specified by such Holder. For these purposes, a form of transfer received by the relevant Registrar or any of the Transfer Agents after the Record Date (as defined in Condition 8(b) (*LLP Events of Default*)) in respect of any payment due in respect of Registered Covered Bonds shall be deemed not to be effectively received by the relevant Registrar or such Transfer Agent until the day following the due date for such payment.

(l) ***No charge***

The issue of new Registered Covered Bonds on transfer will be effected without charge to the Holder or the transferee by or on behalf of the Issuer, the relevant Registrar or the relevant Transfer Agent, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the relevant Registrar or, as the case may be, the relevant Transfer Agent may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfers or exchanges.

(m) ***Regulations concerning transfer and registration of Registered Covered Bonds***

All transfers of Registered Covered Bonds and entries on the Register will be made subject to the detailed regulations (the “**Regulations**”) concerning exchange and transfer of Registered Covered Bonds scheduled to the Agency Agreement. The Regulations may be amended, supplemented or replaced by the Issuer with the prior written approval of the relevant Registrar but without the consent of the Holders of any Covered Bonds. A copy of the current Regulations are available for inspection during usual business hours at the specified office of the relevant Registrar and the Transfer Agents.

(n) **Legend**

Upon the transfer, exchange or replacement of Covered Bonds bearing a resale legend (the “**Legend**”) set forth in the form of Covered Bond scheduled to the Trust Deed, the Registrar(s) shall deliver only Covered Bonds that also bear such legend

(o) **Bearer Covered Bonds issued in reliance on TEFRA D**

Bearer Covered Bonds, and their Coupons, issued in reliance on TEFRA D will bear the following legend:

“Any United States person (as defined in the United States Internal Revenue Code) who holds this obligation will be subject to the limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.”

2. Status of the Covered Bonds and the Covered Bond Guarantee

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

The Covered Bonds and any related Receipts and Coupons constitute direct, unsecured obligations of the Issuer, ranking *pari passu* without any preference among themselves, and, at their date of issue, ranking *pari passu* with all other unsecured and unsubordinated obligations of the Issuer other than any such obligations preferred by law.

Claims in respect of any Covered Bonds or Coupons may not be set off, or be the subject of a counterclaim, by the Holder against or in respect of any obligations of his to the Issuer, the LLP, the Bond Trustee or any other person, and every Holder waives, and shall be treated for all purposes as if he had waived, any right that he might otherwise have to set off, or to raise by way of counterclaim any claim of his in respect of any Covered Bonds or Coupons, against or in respect of any obligations of his to the Issuer, the LLP the Bond Trustee or any other person. If, notwithstanding the preceding sentence, any Holder receives or recovers any sum or the benefit of any sum in respect of any Covered Bond or Coupon by virtue of any such set off or counterclaim, he shall hold the same on trust for the Issuer and shall pay the amount thereof to the Issuer or, in the event of the winding up of the Issuer, to the liquidator of the Issuer.

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

The payment of Guaranteed Amounts in respect of the Covered Bonds when such amounts become Due for Payment has been irrevocably guaranteed by the LLP (the “**Covered Bond Guarantee**”) in the Trust Deed. However, the LLP shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amount until the service by the Bond Trustee on the LLP of a Notice to Pay. The obligations of the LLP under the Covered Bond Guarantee are direct and (following the service of a Notice to Pay on the LLP) unconditional and unsubordinated obligations of the LLP, which are secured as provided in the LLP Security Deed.

Any payment made by the LLP under the Covered Bond Guarantee shall discharge *pro tanto* the obligations of the Issuer under the Covered Bonds, Receipts and Coupons except where such payment has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Bond Trustee or the Covered Bondholders.

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

The LLP Security Deed contains provisions which determine the property of the LLP which is secured for the benefit of Covered Bondholders.

3. Interest

(a) **Interest on Fixed Rate Covered Bonds**

Covered Bonds bearing interest at a fixed rate (each a “**Fixed Rate Covered Bond**”) will bear interest on the Principal Amount Outstanding (or, in the case of Partly Paid Covered Bonds, the principal amount paid up in respect thereof) of each Covered Bond as at its date of issue (less, in the case of any Instalment Covered Bond, any principal amount on which interest shall have ceased to accrue in accordance with the following paragraph) at the applicable fixed rate or rates per annum specified in the relevant Final Terms as the rates of interest (each a “**Rate of**

Interest) from the date specified in the relevant Final Terms as the interest commencement date (the **“Interest Commencement Date”**). Interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms (each a **“Fixed Interest Payment Date”**) and on the date specified in the relevant Final Terms as the date on which such Covered Bonds are to be redeemed (the **“Final Maturity Date”**). The first payment of interest will be made on the first Fixed Interest Payment Date following the Interest Commencement Date. If a Notice to Pay is served on the LLP, the LLP shall pay the Guaranteed Amounts in equivalent amounts to those described above under the Covered Bond Guarantee in respect of the Covered Bonds on each Original Due for Payment Date provided that any Guaranteed Amounts representing interest, paid after the Final Maturity Date shall be paid at such rate and on such dates specified in the relevant Final Terms.

Interest will cease to accrue on each Fixed Rate Covered Bond on the due date for redemption thereof (or, in the case of an Instalment Covered Bond, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount, as contemplated in Condition 5 (*Redemption and Purchase*)) unless, upon due presentation thereof, or, in the case of Registered Covered Bonds, upon such due date, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue (as well after as before any judgment) up to and including the date on which, in the case of a Bearer Covered Bond, upon further presentation thereof, payment in full of the principal amount due in respect of such Fixed Rate Covered Bond is made or (if earlier) the date upon which notice is duly given to the Holder of such Fixed Rate Covered Bond that sufficient funds for payment of the principal amount due in respect of it, together with accrued interest, have been received by the Principal Paying Agent or the Bond Trustee or, in the case of Registered Covered Bonds, on the date on which payment is made in full.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 3(a):

- (i) if **“Actual/Actual (ICMA)”** is specified in the applicable Final Terms:
 - (A) in the case of Fixed Rate Covered Bonds where the number of days in the relevant period from (and including) the most recent Fixed Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **“Accrual Period”**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (B) in the case of Fixed Rate Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (ii) if **“30/360”** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Fixed Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

In these Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Fixed Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

“**Principal Amount Outstanding**” means in respect of a Covered Bond the principal amount of that Covered Bond on the relevant Issue Date thereof less (in the case of a Covered Bond other than a Partly Paid Covered Bond) principal amounts received by the relevant Covered Bondholder in respect thereof and plus (in the case of a Partly Paid Covered Bond) principal amounts received by the Issuer from the relevant Covered Bondholder after the relevant Issue Date in respect thereof; and

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, Euro 0.01.

(b) ***Interest on Floating Rate Covered Bonds and Inflation-Linked Interest Covered Bonds***

(i) ***Accrual of Interest***

Covered Bonds bearing interest at a floating rate (each a “**Floating Rate Covered Bond**”) bear interest on the Principal Amount Outstanding (or, in the case of Partly Paid Covered Bonds, the principal amount paid up in respect thereof) of each Covered Bond as at its date of issue (less, in the case of any Instalment Covered Bond, any principal amount on which interest shall have ceased to accrue in accordance with the following paragraph) from the Interest Commencement Date specified in the relevant Final Terms.

Interest will cease to accrue on each Floating Rate Covered Bond on the due date for redemption thereof (or, in the case of an Instalment Covered Bond, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless, upon due presentation thereof, or, in the case of a Registered Covered Bond, upon such due date, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue (as well after as before any judgment) up to and including the date on which, in the case of a Bearer Covered Bond, upon further presentation thereof, payment in full of the principal amount due in respect of such Covered Bond is made or (if earlier) the date upon which notice is duly given to the Holder of such Covered Bond that sufficient funds for payment of the principal amount due in respect of it, together with accrued interest, have been received by the Principal Paying Agent or the Bond Trustee or, in the case of a Registered Note, the date on which full payment is made.

In respect of Floating Rate Covered Bonds, the basis on which interest is calculated is as set out in the relevant Final Terms.

(ii) ***Interest Payment Dates and Interest Periods***

Interest on each Floating Rate Covered Bond will be payable in arrear on such dates as are specified in the relevant Final Terms for such purpose and on the due date for redemption of such Covered Bond (each, an “**Interest Payment Date**”) provided that, unless otherwise set out in the relevant Final Terms, if any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next Business Day unless it would thereby fall in the next calendar month, in which event the Interest Payment Date shall be the immediately preceding Business Day. The first payment of interest will be made on the first Interest Payment Date following the Interest Commencement Date.

The period from (and including) the Interest Commencement Date up to (but excluding) the first Interest Payment Date and each period thereafter from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date is referred to herein as an “**Interest Period**”. The expression “**Business Day**”, as used in these Conditions shall mean a day which is both (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, New York and any Additional Business Centre specified for this purpose in the relevant Final Terms; and (B) a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

(iii) ***Rate of Interest***

The rate at which Floating Rate Covered Bonds will bear interest (the “**Rate of Interest**”) shall be determined by the Agent Bank on the basis of the following provisions:

- (A) the Rate of Interest in respect of an Interest Period shall, subject as provided below, be the Relevant Rate of the Benchmark (where such Relevant Rate is a composite quotation or interest rate per annum or is customarily supplied by one entity) or the arithmetic mean rounded upwards, if necessary, to the nearest 0.00001 per cent of the Relevant Rates of the Benchmark for the Interest Period which appear on the appropriate page of the Reuters Screen, Moneyline Telerate (as defined below) or such other information vending service as may be set out in the relevant Final Terms as at 11.00 a.m. (London time) or such other time as may be specified in the relevant Final Terms on the Interest Determination Date (as defined below) plus or minus (as appropriate) the percentage rate per annum (if any) over or under the Relevant Rate or, as the case may be, arithmetic mean of the Relevant Rates of the Benchmark by which the Rate of Interest is to be determined as set out in the relevant Final Terms (the “**Margin**”), all as determined by the Agent Bank;
- (B) if the Reuters Screen, Moneyline Telerate or such other information vending service as may be set out in the relevant Final Terms does not contain an appropriate page in respect of the specified currency, or if fewer than two of the Relevant Rates appear at such time (other than where such Relevant Rate is a composite quotation or rate or is customarily supplied by one entity), or if the rates which appear as at such time do not apply to a period of a duration equal to the relevant Interest Period, the Rate of Interest for such Interest Period shall be the Fallback Rate as set out in (iii) below plus or minus, as applicable, the applicable margin;
- (C) to determine the “**Fallback Rate**” the circumstances set out in (ii) above, the Agent Bank will:
- (1) where the specified currency is Euro:
 - (a) request the principal Euro-zone office of each of five major banks in the Euro-zone interbank market to provide a quotation of the rate at which deposits in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date to prime banks in the Euro-zone interbank market for a period equal to the relevant Interest Period in an amount that is representative for a single transaction in that market at that time; and
 - (b) discard the highest and lowest quotation and determine the arithmetic mean (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 being rounded upwards) of such remaining quotations. If fewer than three such quotations are provided as requested, the Agent Bank will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the Euro-zone interbank market, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in Euro to leading Euro-zone banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at the time;
 - (2) in any other case:
 - (a) request appropriate quotations and will determine the arithmetic mean of the rate at which deposits in the specified currency are offered by three major banks (or, if fewer than three rates are so quoted, two major banks, or, if fewer than two rates are quoted, one major bank) in the London interbank market, selected by the Agent Bank, at approximately 11.00 a.m. London time on the Interest Determination Date in respect of the relevant Interest Period to prime banks in the London interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time.
- (D) In this Condition 3(b)(iii) and in Condition 3(b)(iv) below only:
- (1) the “**Benchmark**” means LIBOR or such other benchmark as may be set out in the relevant Final Terms;

(2) “**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Bond Calculation Period**”), such day count fraction as may be specified in the relevant Final Terms and:

- (a) if “**Actual/365**” or “**Actual/Actual (ISDA)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if “**Actual/Actual (ICMA)**” is so specified, means:
 - (AA) where the Bond Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Bond Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (BB) where the Bond Calculation Period is longer than one Regular Period, the sum of:
 - (i) the actual number of days in such Bond Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (ii) the actual number of days in such Bond Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

for this purpose, “**Regular Period**” means each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls;

- (e) if “**Actual/360**” is so specified, means the actual number of days in the Bond Calculation Period divided by 360; and
 - (f) if “**30/360**” is so specified, means the number of days in the Bond Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (i) the last day of the Bond Calculation Period is the 31st day of a month but the first day of the Bond Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Bond Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (3) “**Relevant Rate**” means:
- (a) an offered rate in the case of a Covered Bond the Benchmark for which relates to an offered rate; or

- (b) a bid rate in the case of a Covered Bond the Benchmark for which relates to a bid rate; or
- (c) the mean of an offered and bid rate in the case of a Covered Bond the Benchmark for which relates to the mean of an offered and bid rate,
as set out in the relevant Final Terms;
- (4) the expression “**Interest Determination Date**” means the day determined by the Agent Bank to be customary for fixing the Benchmark rate applicable to deposits in the relevant currency for the relevant Interest Period; and
- (5) the expression “**the appropriate page of the Reuters Screen, Moneyline Telerate**” means such page, whatever its designation, on which the Benchmark rates for deposits in the relevant currency of prime banks are for the time being displayed on the Reuters Monitor Money Rates Services or the Associated Press – Dow Jones Moneyline Telerate Service.

(iv) *Determination of Rate of Interest and Calculation of Interest Amount*

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) or such other time as may be set out in the relevant Final Terms on each Interest Determination Date, determine the Rate of Interest and calculate the amount of interest payable in respect of each denomination of the relevant Floating Rate Covered Bonds (the “**Interest Amount**”) for the relevant Interest Period.

The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Principal Amount Outstanding (or, in the case of a Partly Paid Covered Bond, the principal amount paid up in respect thereof) of the relevant Covered Bond of each denomination, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest applicable sub-unit of the currency in which such Covered Bond is denominated or, as the case may be, in which such interest is payable (one half of any such sub-unit being rounded upwards).

(v) *Notification of Rate of Interest and Interest Amount*

The Agent Bank will cause the Rate of Interest, the Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Principal Paying Agent, (in the case of Listed Covered Bonds) each listing authority, stock exchange and/or quotation system (if any) by which such Covered Bonds have for the time being been admitted to listing, trading and/or quotation and, for as long as such Covered Bonds are represented by Global Covered Bonds, Euroclear and/or Clearstream, Luxembourg and/or such other clearing system or depository as may be set out in the relevant Final Terms as soon as possible after the determination thereof but in any event no later than the fourth business day thereafter. In respect of Floating Rate Covered Bonds which are Definitive Covered Bonds, the Agent Bank will give notice to the Covered Bondholders of the Rate of Interest, the Interest Amount and the relevant Interest Payment Date in accordance with the provisions of Condition 11 (*Notices*). The Interest Amount and the Interest Payment Date so notified in respect of any Covered Bonds may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which such Covered Bonds are for the time being listed.

(vi) *Determination or Calculation by the Bond Trustee*

If the Agent Bank does not at any time for any reason determine the Rate of Interest or calculate the Interest Amount, the Bond Trustee shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Bond Trustee shall apply the foregoing provisions of this Condition 3(b), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b), whether by the Agent Bank or, if applicable, the Calculation Agent or the Bond Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the LLP, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith or manifest error) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Agent or (if applicable) the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Covered Bonds*

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

(d) *Interest on Partly Paid Covered Bonds*

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

4. **Payments**

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than Euro and US Dollars will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively);
- (ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque; and
- (iii) payments in US Dollars will be made by transfer to a US Dollar account maintained by the payee with a bank outside of the United States (which expression, as used in this Condition 4, means the United States of America, including the State and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction), or by cheque drawn on a United States bank.

In no event will payment be made by a cheque mailed to an address in the United States. All payments of interest will be made to accounts located outside the United States except as may be permitted by United States tax law in effect at the time of such payment without detriment to the Issuer. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment in these Conditions, the Trust Deed, the Agency Agreement and the Final Terms, but without prejudice to the provisions of Condition 6 (*Taxation*). References to "Specified Currency" will include any successor currency under applicable law.

(b) *Presentation of definitive Covered Bonds, Receipts and Coupons*

Payments of principal in respect of definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 4(a) (*Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Covered Bonds, and payments of interest in respect of definitive Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States.

Payments of instalments of principal (if any) in respect of definitive Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 4(a) (*Method of Payment*) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 4(a) (*Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant definitive Covered Bond in accordance with the preceding paragraph. If any definitive Covered Bond is redeemed or becomes repayable prior to the stated maturity thereof, principal will be repayable only on surrender of such Covered Bond together with all unmatured Receipts appertaining thereto. Receipts presented without the definitive Covered Bond to which they appertain and unmatured Receipts do not constitute valid obligations of the Issuer or the LLP. Upon the date on which any definitive Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive form (other than Dual Currency Covered Bonds, Inflation-Linked Covered Bonds or Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

(c) ***Payments in respect of Bearer Covered Bonds in Global Form***

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond Certificate will (subject as provided below) be made in the manner specified above in relation to definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made in the records of Euroclear or Clearstream, Luxembourg (as applicable) as common safekeeper and such records shall on such Global Covered Bond by the Paying Agent to which it was presented and such record shall be conclusive evidence that the payment in question has been made.

(d) ***Payments in respect of Registered Covered Bonds in Global Form***

Payment of the amount due on final redemption (the “**Redemption Amount**”) in respect of Registered Covered Bonds will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Covered Bonds at the specified office of the Registrar(s) (and in the case of Regulation S Global Covered Bonds, at a specified office outside the United States). If the due date for payment of the Redemption Amount of any Registered Covered Bond is not both a Relevant Financial Centre Day and a Local Banking Day (each as defined below), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Conditions in which event interest shall continue to accrue as provided in these Conditions, or the Final Terms, as appropriate.

Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Covered Bonds will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar(s) at the close of business (local time in the place of the specified office of the Registrar(s)) on the fifteenth day prior to the due date for such payment (the “**Record Date**”).

Payment will be made in the currency in which such amount is due either by cheque posted to the Covered Bondholder’s registered address (or, in the case of joint Holders, the first-named) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first named) has applied to the Registrar(s) and the Registrar(s) has acknowledged such application for payment to be made to a designated account denominated in the relevant currency, in each case as specified in paragraph (c) below.

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Global Covered Bond Certificate will (subject as provided below) be made in the manner specified above in relation to definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent.

A record of each payment made against presentation or surrender of any Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on in the register relating to such Global Covered Bond by the Registrar(s), and such record shall be prima facie evidence that the payment in question has been made.

(e) ***General provisions applicable to payments in respect of Bearer Covered Bonds***

The bearer of a Global Covered Bond (other than in relation to the Excess Proceeds) or the Bond Trustee shall be the only person entitled to receive payments in respect of Covered Bonds in bearer form represented by such Global Covered Bond Certificate and the Issuer or, as the case may be, the LLP and the Bond Trustee will be discharged by payment to, or to the order of, the bearer of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg (or, as provided in the Trust Deed, the Bond Trustee), as the case may be, for its share of each payment so made by the Issuer or, as the case may be, the LLP or the Bond Trustee to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the bearer of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition:

- (i) the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of the United Kingdom H.M. Revenue & Customs) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of tax calculated by reference to the interest represented by the relevant Coupon; and

- (ii) if any amount of principal and/or interest in respect of Covered Bonds is payable in US Dollars, such US Dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:
 - (A) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US Dollars at such specified offices outside the United States of the full amount of principal and interest on the Covered Bonds in the manner provided above when due;
 - (B) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US Dollars; and
 - (C) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

(f) **Payment Day**

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 7) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in Euro, a day on which the TARGET System is open.

(g) **Partial payment**

Following the service of a Notice to Pay on the LLP but prior to an LLP Event of Default, if on the Original Due for Payment Date (subject to any applicable grace period) of a Series of Covered Bonds the LLP has insufficient moneys (after paying higher ranking amounts and taking into account amounts ranking *pari passu* in the Guarantee Priority of Payments) to pay the Guaranteed Amount corresponding to the Final Redemption Amount on that Series of Covered Bonds, then the LLP shall apply the available moneys (after paying higher ranking amounts in accordance with the Guarantee Priority of Payments) to redeem the relevant Series of Covered Bonds *pro rata* in part at par together with accrued interest.

5. Redemption and Purchase

(a) **Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below (and subject as otherwise set out in the relevant Final Terms), each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date.

Without prejudice to Condition 8, if an Extended Final Maturity Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (the “**Original Due for Payment Date**”) (or after the expiry of the grace period set out in Condition 8(a)(i))

and the LLP or the LLP Cash Manager on its behalf determines that the LLP has insufficient moneys available under the provisions of the Covered Bond Guarantee to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (i) the date which falls two London Business Days after service of such Notice to Pay on the LLP or if later the Final Maturity Date (in each case after expiry of the grace period set out in Condition 8(b)(i)) under the terms of the Covered Bond Guarantee and (ii) the Extension Determination Date, then (subject as provided below), payment of the unpaid amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Final Maturity Date provided that, any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (i) and (ii) above may be paid by the LLP on any Interest Payment Date thereafter, up to (and including) the relevant Extended Final Maturity Date.

The LLP (or the LLP Cash Manager on its behalf) shall confirm to the Rating Agencies, any relevant Covered Bond Swap Provider, the Bond Trustee and the Principal Paying Agent as soon as reasonably practicable and in any event at least two London Business Day prior to the earlier of the dates specified in (i) and (ii) of the preceding paragraph of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee.

In the circumstances outlined above, the LLP shall on the earlier of (i) the date falling two Business Days after the service of a Notice to Pay or if later the Final Maturity Date (or, in each case, after the expiry of the grace period set out in Condition 8(b)(i)) and (ii) the Extension Determination Date under the Covered Bond Guarantee apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the provisions of the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above.

For the purposes of these Conditions:

“**Extension Determination Date**” means the date falling three Business Days after the expiry of seven days from (and including) the Final Maturity Date of the relevant Series of Covered Bonds.

“**Extended Final Maturity Date**” means in relation to any Series of Covered Bonds, the date if any specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full on the Extension Determination Date.

(b) **Redemption for tax reasons**

If the Issuer satisfies the Bond Trustee immediately prior to the giving of the notice referred to below that:

- (i) on a subsequent date for the payment of interest on any Series of Covered Bonds the Issuer would be required to pay any additional amounts in accordance with the provisions of Condition 6 (*Taxation*); or
- (ii) if the Issuer were to seek to redeem the Covered Bonds (for which purpose no regard shall be had as to whether or not the Issuer would otherwise be entitled to redeem such Covered Bonds), the Issuer would (notwithstanding its having made such endeavours as the Bond Trustee shall consider reasonable) be required to pay any additional amounts in accordance with the provisions of Condition 6 (*Taxation*),

the Issuer may, having given not less than 30 nor more than 45 days' notice (ending, in the case of Floating Rate Covered Bonds, on an Interest Payment Date) to the Covered Bondholders in respect of such Series of Covered Bonds, redeem all, but not some only, of the Covered Bonds, at their Principal Amount Outstanding or such other redemption amount as may be set out in the relevant Final Terms together with interest accrued and unpaid, if any, to the date fixed for redemption provided that no such notice of redemption shall be given earlier than 90 days (or in the case of Floating Rate Covered Bonds a number of days which is equal to the aggregate

of the number of days in the then current Interest Period plus 60 days provided that such aggregate number of days shall not be greater than 90 days) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due.

The Issuer may exercise such option in respect of any Covered Bond notwithstanding the prior exercise by the Holder thereof of its option to require the redemption of such Covered Bond under paragraph (d) below, if the due date for redemption under this paragraph (b) would occur prior to that under paragraph (d) but not otherwise and, in such circumstances, the exercise of the option under paragraph (d) shall be rendered ineffective.

Subject only to the obligation of the Issuer to use such endeavours as aforesaid, it shall be sufficient, to establish the circumstances required to be established pursuant to this Condition 5(b), if the Issuer shall deliver to the Bond Trustee a certificate of an independent legal adviser or accountant satisfactory to the Bond Trustee to the effect either that such circumstances do exist or that, upon a change in or amendment to the laws (including any regulations pursuant thereto), or in the interpretation or administration thereof, of the United Kingdom, which at the date of such certificate is proposed and in the opinion of such legal adviser or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Covered Bonds would otherwise be made, becoming so effective, such circumstances would exist.

(c) ***Redemption at the option of the Issuer (Issuer Call)***

If an issuer call is specified in the applicable Final Terms (the “**Issuer Call**”), the relevant Series of Covered Bonds shall be redeemable at the option of the Issuer. In such case, the Issuer may (unless otherwise specified in the applicable Final Terms) at any time (in the case of Fixed Rate Covered Bonds or Zero Coupon Covered Bonds), on any Interest Payment Date (in the case of Floating Rate Covered Bonds) or otherwise as set out in the relevant Final Terms, on giving (in accordance with Condition 11) not less than 30 nor more than 60 days’ notice (or such other period as set out in the relevant Final Terms) to the Covered Bondholders of the relevant Series (such notice being irrevocable) specifying the date fixed for such redemption, on the date so fixed, redeem all of such Covered Bonds (or, if so specified in the relevant Final Terms and subject as therein specified, some only of the Covered Bonds) at their Principal Amount Outstanding or such other amount as set out in the relevant Final Terms together with interest accrued thereon to the date fixed for redemption.

If the Covered Bonds of a Series are to be redeemed in part only on any date in accordance with this paragraph (c), in the case of Covered Bonds (other than a temporary global Covered Bond or permanent global Covered Bond), the Covered Bonds to be redeemed shall be drawn by lot in such European city as the Principal Paying Agent may specify, or identified in such other manner or in such other place as the Principal Paying Agent and the Bond Trustee may approve and deem appropriate and fair, subject to the rules and procedures of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) (such redemption to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), subject always to compliance with all applicable laws and the requirements of each listing authority, stock exchange and/or quotation system (if any) by which the relevant Covered Bonds may have been admitted to listing, trading and/or quotation.

(d) ***Redemption at the option of the Covered Bondholders (Investor Put)***

Where so set out in the relevant Final Terms, the relevant Series of Covered Bonds shall be redeemable at the option of the Covered Bondholders. In such case, upon any Covered Bondholder giving to the Issuer notice of redemption (such notice being irrevocable) the Issuer will, in accordance with the provisions set out in the relevant Final Terms, redeem in whole (but not in part) the Covered Bond(s) specified in such notice at their Principal Amount Outstanding or such other amount as may be set out in or determined in accordance with the relevant Final Terms together with interest accrued thereon to the date fixed for redemption.

In order to give such notice, the Covered Bondholder must, not less than 45 days before the date for redemption as set out in the relevant Final Terms (or such other period as may be set out in the Final Terms), deposit the relevant Covered Bond (together, in the case of an interest-bearing Definitive Covered Bond, with any unmatured Coupons appertaining thereto) with any Paying Agent together with a duly completed redemption notice in the form which is available from the specified office of any of the Paying Agents. The Holder of a Covered Bond may not exercise such option in respect of any Covered Bond which is the subject of an exercise by the Issuer of its option to redeem such Covered Bond under Condition 5(b) or (c).

(e) ***Redemption due to illegality***

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (ending, in the case of Floating Rate Covered Bonds, on an Interest Payment Date) to the Bond Trustee, the Principal Paying Agent and, in accordance with Condition 11 (*Notices*), all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to remain a member of, or retain an interest in, the LLP or the Covered Bond Entitlement of the Mortgage Portfolio and/or the Additional Covered Bond Collateral Portfolio, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.

The Issuer may exercise any such option in respect of any Covered Bond notwithstanding the prior exercise by the Holder thereof of its option to require the redemption of such Covered Bond under Condition 5(d) (*Redemption at the option of the Covered Bondholders (Investor Put)*) above, if the due date for redemption under this Condition 5(e) would occur prior to the under Condition 5(d) (*Redemption at the option of the Covered Bondholders (Investor Put)*) but not otherwise, and in such circumstances the exercise of the option under Condition 5(d) (*Redemption at the option of the Covered Bondholders (Investor Put)*) shall be rendered ineffective.

Prior to the publication of any notice of redemption pursuant to this Condition 5(e), subject only to the obligation of the Issuer to use such endeavours as aforesaid, it shall be sufficient, to establish the circumstances required to be established pursuant to this Condition 5(e), the Issuer shall deliver to the Bond Trustee a certificate of an independent legal adviser or accountant satisfactory to the Bond Trustee stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred or that, upon a change in or amendment to the laws (including any regulations pursuant thereto), or in the interpretation or administration thereof, of the United Kingdom, which at the date of such certificate is proposed and in the opinion of such legal adviser or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Covered Bonds would otherwise be made, becoming so effective, such circumstances would exist and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receptiholders and Couponholders.

Covered Bonds redeemed pursuant to this Condition 5(e) will be redeemed at their Early Redemption Amount referred to in paragraph 5(f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(f) ***Early Redemption Amounts***

Subject to anything to the contrary contained in the relevant Final Terms, for the purpose of Conditions 5(b) and 5(e) above and 5(g), 5(h) and 5(k) below and Condition 8 (*Events of Default and Enforcement*), each Covered Bond will be redeemed at its "**Early Redemption Amount**" calculated as follows:

- (i) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Covered Bond (including an Instalment Covered Bond and Partly Paid Covered Bonds but not a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price (as defined in the Final Terms) or

which is payable in a Specified Currency other than that in which the Covered Bond is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

- (iii) in the case of a Zero Coupon Covered Bond, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield (compounded annually) (as defined in the relevant Final Terms) expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the relevant Series to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Final Terms.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than Euro, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Covered Bond payable in Euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365) or (c) on such other calculation basis as may be specified in the applicable Final Terms.

(g) **Instalments**

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates as set out in the Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 5(f) above.

(h) **Partly Paid Covered Bonds**

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(i) **Purchases**

The Issuer and/or any of its subsidiaries (other than the LLP) may, at any time, purchase or otherwise acquire Covered Bonds (provided that, in the case of definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price in the open market either by tender or private agreement or otherwise. If purchases are made by tender, tenders must be available to all Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or, the relevant subsidiary, surrendered to any Paying Agent for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent for cancellation).

(j) **Cancellation**

All Covered Bonds redeemed pursuant to paragraph (a), (b), (c) or (d) of this Condition 5 shall, and all Covered Bonds purchased pursuant to paragraph (h) of this Condition 5 may, at the option of the Issuer, be cancelled forthwith (together with, in the case of Definitive Covered Bonds, all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith) by the Paying Agent through which they are redeemed or surrendered. No Covered Bonds redeemed or purchased and cancelled as aforesaid may be re-issued or resold.

(k) **Late payment on Zero Coupon Covered Bonds**

Where Zero Coupon Covered Bonds are redeemed by the Issuer prior to the Final Maturity Date set out in the relevant Final Terms, they shall be redeemed at a redemption amount determined in accordance with the provisions set out in the relevant Final Terms.

(l) **Legislative Exchange**

Following the coming into force in the United Kingdom, at any time after the Programme Establishment Date, of (a) any legislation similar to covered bond legislation in force in any other country of the European Union or (b) any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by United Kingdom issuers to qualify for the same benefits available to covered bonds issued under covered bond legislation in force in any other country of the European Union, the Issuer may, at its option and without the consent of the Bond Trustee or the Covered Bondholders, Receiptholders or Couponholders, exchange all (but not some only) of the Covered Bonds of all Series then outstanding (the “**Existing Covered Bonds**”) for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the “**New Covered Bonds**”) in identical form, amounts and denominations as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the “**Legislative Exchange**”) if not more than 60 nor less than 30 days’ notice to the Covered Bondholders (in accordance with Condition 11) and the Bond Trustee is given and provided that:

- (i) on the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two directors of the Issuer and a certificate signed by a Designated Member of the LLP confirming that, in the case of the Issuer, no Issuer Event of Default or Potential Issuer Event of Default and, in the case of the LLP, no LLP Event of Default or Potential LLP Event of Default, shall have occurred and be continuing;
- (ii) each of the Rating Agencies then rating the Existing Covered Bonds has confirmed in writing that the New Covered Bonds will be assigned the same ratings as are then applicable to the Existing Covered Bonds;
- (iii) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires the Issuer delivers to the Bond Trustee a certificate signed by two directors of the Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with; and
- (iv) each of the Rating Agencies then rating the Related Debt of other Members of the LLP has confirmed in writing that the current ratings of the Related Debt will not be downgraded, placed on credit watch with negative implications or withdrawn as a consequence of the issuance of the New Covered Bonds.

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds.

(m) **Other Redemption Provisions**

The relevant Final Terms may provide for other circumstances in which Covered Bonds may or shall be redeemed, the amount payable on such redemption in respect of principal only, principal and interest or interest only and whether or not Covered Bonds so redeemed shall or may be cancelled pursuant to Condition 5(j).

6. Taxation

Except as otherwise set out in the relevant Final Terms, all payments by the Issuer of principal and interest in respect of the Covered Bonds will be made without withholding or deduction for or on account of any taxes, duties, assessments or governmental charges of whatever nature, present or future, as are imposed or levied by or on behalf of the United Kingdom (or any authority or political subdivision therein or thereof having power to tax) unless the Issuer is required by law to withhold or deduct any such taxes, duties, assessments or governmental charges.

In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Covered Bondholders or Couponholders, as the case may be, after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Covered Bonds and/or, as the case may be, Coupons in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond or Coupon:

- (a) to, or to a third party on behalf of, a Holder of a Covered Bond or Coupon who is liable to such taxes, duties, assessments or governmental charges in respect of such Covered Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Covered Bond or Coupon; or
- (b) unless it is proved to the satisfaction of the Principal Paying Agent or the Paying Agent to whom the same is presented that the Holder is unable to avoid such withholding or deduction by satisfying any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to a Paying Agent or the relevant tax authorities (as applicable) or by notifying (and/or presenting evidence of such notification) any tax authorities of such payment of principal or interest or by presenting the relevant Covered Bond or Coupon at the specified office of another Paying Agent (whether within or outside the European Union); or
- (c) in the case of Registered Covered Bonds, unless the Holder, immediately upon becoming the Holder, (i) is eligible for the benefits of a tax treaty with the United Kingdom that provides for a complete exemption from withholding taxes on payments under the Covered Bonds or (ii) is otherwise entitled to complete exemption from withholding taxes on payments under the Covered Bonds; or
- (d) more than 30 days after the Relevant Date (defined below) except, to the extent that the Holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (e) to, or to a third party on behalf of, a Holder who is not the sole beneficial owner of the Covered Bond or any Coupon, or a portion of either, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment; or
- (f) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th- 27th November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (g) in respect of any tax imposed on, or measured by, the overall net income of a Holder of the Covered Bonds; or
- (h) in respect of any estate, inheritance, gift, sales, transfer, capital gains, excise or personal property or similar tax, assessment or governmental charge; or
- (i) in respect of any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal or interest on the Covered Bonds or by direct payment by the Issuer in respect of claims made against the Issuer; or
- (j) in respect of any combination of the above.

As used herein the “**Relevant Date**” means the date on which such payment first becomes due but, in the case of Covered Bonds, if the full amount of the money payable has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given to the relevant Covered Bondholders in accordance with Condition 11 (*Notices*). “**Tax Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

Any obligation of the Issuer to pay any additional amounts pursuant to this Condition 6 will not constitute Guaranteed Amounts for the purposes of the Covered Bond Guarantee.

Should any payments made by the LLP under the Covered Bond Guarantee be made subject to any withholding or deduction on account of taxes or duties of whatever nature imposed or levied by or on account of any Tax Jurisdiction, the LLP will not be obliged to pay any additional amounts as a consequence.

7. Prescription

Covered Bonds, Receipts and Coupons will become void unless presented for payment within a period of ten (10) years and five (5) years, respectively, from the Relevant Date (as defined in

Condition 6 (*Taxation*) in respect thereof. Any monies paid by the Issuer to the Principal Paying Agent or the Bond Trustee for the payment of the principal or interest in respect of any Covered Bonds or Coupons and remaining unclaimed when such Covered Bonds, Receipts or Coupons become void will then revert to the Issuer and all liability of the Principal Paying Agent or the Bond Trustee with respect thereto will thereupon cease.

There shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 7 or Condition 4.

8. Events of Default and Enforcement

(a) Issuer Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding of any Series or if so directed by an Extraordinary Resolution of the Holders of that Series, shall (subject in each case to being indemnified and/or secured to its satisfaction) give notice (an “**Issuer Acceleration Notice**”) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) the Covered Bonds of such Series are immediately due and repayable, whereupon the Principal Amount Outstanding of such Covered Bonds or such other amount as set out in or calculated in accordance with the relevant Final Terms shall become immediately due and repayable together with interest accrued to (but excluding) the date of actual repayment if any of the following events (each an “**Issuer Event of Default**”) shall occur and be continuing:

- (i) default is made for a period of 14 days or more in the repayment of any principal due on the Covered Bonds of such Series or any of them or in the payment of any interest due in respect of the Covered Bonds of such Series or any of them (provided that it shall not be such a default to withhold or refuse any such payment in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment, or in cases of doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given at any time during the said period of 14 days by independent legal advisers acceptable to the Bond Trustee as to such validity or applicability); or
- (ii) an order being made or an effective resolution being passed for the winding up of the Issuer in England (otherwise than in connection with a scheme of reconstruction or amalgamation the terms of which shall previously have been approved in writing by the Bond Trustee or by an Extraordinary Resolution of the Holders of the relevant Series of Covered Bonds).

Upon service by the Bond Trustee of an Issuer Acceleration Notice on the Issuer, the Bond Trustee shall serve a Notice to Pay on the LLP not later than the next following Business Day pursuant to the Covered Bond Guarantee and the LLP shall be required to make payments of Guaranteed Amounts when such amounts become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following the service of an Issuer Acceleration Notice, the Bond Trustee may or shall, as the case may be, take such proceedings against the Issuer in accordance with the first paragraph of Condition 8(c).

(b) LLP Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose means the Covered Bonds of this Series together with the Covered Bonds of each other Series constituted by the Trust Deed) then outstanding as if they were a single Series (with the nominal amount of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by a Programme Resolution shall (subject in each case to being indemnified and/or secured to its satisfaction), but in the case of the happening of any of the events described in paragraph (ii) below, only if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such event is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series, give notice (a “**Guarantee Acceleration Notice**”) in writing to the Issuer and to the LLP, that all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption

Amount for each Covered Bond of each Series together with accrued interest, in each case as provided in the Trust Deed and thereafter the LLP Security shall become enforceable if any of the following events (each an “LLP Event of Default”) shall occur and be continuing:

- (i) default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amount when Due for Payment in respect of the Covered Bonds of any Series; or
- (ii) a default is made in the performance or observance by the LLP of any obligation binding upon it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed or any other LLP Transaction Document to which the LLP is a party which (unless certified by the Bond Trustee, in its opinion, to be incapable of remedy when no such continuation and notice as is hereinafter mentioned will be required) shall continue for more than 30 days (or such longer period as the Bond Trustee may permit) after written notification requiring such default to be remedied and indicating that this provision may be invoked if it is not so remedied shall have been given to the LLP by the Bond Trustee in accordance with the Trust Deed; or
- (iii) an order is made or an effective resolution passed for the liquidation or winding up of the LLP except a winding up approved in writing by the LLP Security Trustee; or
- (iv) the LLP ceases to carry on its business or substantially all its business; or
- (v) proceedings shall be commenced and not withdrawn within 20 days against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order); or a receiver, administrator, trustee or other similar official shall be appointed in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment for the benefit of, or shall enter into any composition with, its creditors generally; or
- (vi) the LLP shall stop payment of, or shall be unable, or shall admit inability, to pay, its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (vii) the Covered Bond Guarantee is not, or is claimed by the LLP not to be, in full force and effect; or
- (viii) a failure to satisfy the Amortisation Test (as set out in the Partnership Deed) as of any Calculation Date following delivery of a Notice to Pay; or
- (ix) (in each case other than as envisaged by the LLP Transaction Documents), the LLP creates or permits to subsist any security interest over the whole or any part of its assets, or incurs any indebtedness or enters into any contracts, agreements or undertakings.

Following the occurrence of an LLP Event of Default and service of a Guarantee Acceleration Notice, each of the Bond Trustee and the LLP Security Trustee may or shall take such proceedings or steps in accordance with the first and third paragraphs, respectively, of Condition 8(c) and the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount together with accrued interest and any other amount due under the Covered Bonds (other than additional amounts payable under Condition 5 (*Redemption and Purchase*)) as provided in the Trust Deed in respect of each Covered Bond.

(c) ***Enforcement***

The Bond Trustee may at any time after service of an Issuer Acceleration Notice (in the case of an Issuer Event of Default) or a Guarantee Acceleration Notice (in the case of an LLP Event of Default), at its discretion and without further notice, take such proceedings against the Issuer or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts, and the Coupons or any other LLP Transaction Documents to which it is a party, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or any other LLP Transaction Document unless (a) it shall have been so directed by a Programme Resolution or so requested in writing by the holders of not less than 25 per cent of

the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (b) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions under this Condition 8, the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single class and shall not have regard to the interests of any other LLP Secured Creditors.

The LLP Security Trustee may at any time, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the LLP Security Deed or any other LLP Transaction Documents to which it is a party and may, at any time after the LLP Security has become enforceable, take such steps as it may think fit to enforce the LLP Security, but it shall not be bound to take any such steps unless (a) it shall have been so directed by a Programme Resolution or a request in writing by the holders of not less than 25 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid); and (b) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the LLP Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series and shall not have regard to the interests of any other LLP Secured Creditors in respect of the property which is secured for the benefit of the Covered Bondholders.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Covered Bonds, the Receipts or the Coupons or the LLP Security.

No remedy against the Issuer or the LLP other than as specifically provided by this Condition 8 or the Trust Deed shall be available to the Bond Trustee, the Covered Bondholders or Couponholders in respect of any Series of Covered Bonds whether for the recovery of amounts owing in respect of such Covered Bonds or the Coupons appertaining thereto or under the Trust Deed or in respect of any breach by the Issuer of any obligation, condition or provision under the Trust Deed or such Covered Bonds or Coupons or otherwise, and no Covered Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Bond Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure shall be continuing in which case any such Holder may, upon giving an indemnity satisfactory to the Bond Trustee, in the name of the Bond Trustee (but not otherwise), himself institute proceedings against the Issuer for the relevant remedy to the same extent (but not further or otherwise) that the Bond Trustee would have been entitled to do so in respect of the property which is secured for the benefit of the Covered Bondholders.

9. Replacement of Covered Bonds, Receipts, Coupons And Talons

Should any Covered Bond Receipt, or Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent or such other Paying Agent or office as the Bond Trustee may approve, upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, or Coupons or Talons must be surrendered before replacements will be issued.

10. Paying Agents and Agent Bank

The names of the initial Paying Agents and their initial specified offices are set out below.

In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent Bank, or failing duly to determine the Rate of Interest (if applicable) or to calculate the Interest Amounts of any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Bond Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed from office without a successor having been appointed as aforesaid.

The Principal Paying Agent is authorised by the Issuer and instructed in the case of any Global Covered Bond, to instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect any redemption or purchase and cancellation, as the case may be; provided,

that, in the case of a purchase or cancellation, the Issuer has notified the Principal Paying Agent of the same.

The Agency Agreement contains provisions indemnifying the Principal Paying Agent, the Paying Agents and the Agent Bank and absolving them from responsibility in connection with certain matters. The Agency Agreement may be amended by the parties thereto in relation to any Series of Covered Bonds if, in the opinion of the Issuer and the Bond Trustee, the amendment will not materially adversely affect the interests of the relevant Holders.

The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent, any Paying Agent or the Agent Bank and to appoint additional or other Paying Agents or a substitute Agent Bank, provided that it will, so long as any Covered Bonds are outstanding, maintain (i) an Agent Bank, (ii) a Paying Agent having a specified office in a city approved by the Bond Trustee (such approval not to be unreasonably withheld or delayed) in Europe which, so long as any Covered Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, shall be the place required by such listing authority, stock exchange and/or quotation system, and (iii) if European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, then, unless there is a paying agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to such directive or law, there will at all times be a Paying Agent with a specified office outside the European Union. Notice of all changes in the identities or specified offices of any Paying Agent or Agent Bank will be given by the Issuer to Covered Bondholders in accordance with Condition 11.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

11. Notices

- (a) All notices to the Holders of Covered Bonds or the Coupons appertaining thereto will be valid if published in one leading daily newspaper with general circulation in London (which is expected to be the Financial Times) or if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

Holders of any Coupons appertaining to Covered Bonds will be deemed for all purposes to have notice of the contents of any notice given to the Holders of such Covered Bonds in accordance herewith.

Notwithstanding the foregoing, while the Covered Bonds of any Series are represented by a Covered Bond or Covered Bonds in global form and such Global Covered Bonds are deposited with, or with a depositary for or on behalf of, Euroclear and/or Clearstream, Luxembourg and/or any other clearing system or depositary (or, in the case of Covered Bonds in New Global Note form, deposited with a Common Safekeeper for the International Central Securities Depositaries), each person who has for the time being a particular principal amount of the Covered Bonds credited to his securities account in the records of Euroclear or Clearstream, Luxembourg or such other clearing system or depositary or Common Safekeeper shall be treated as the Holder in respect of that principal amount of the Covered Bonds for all purposes (and in the case of Covered Bonds which are not in New Global Note form, all purposes other than for the purposes of payment of principal and interest on such Covered Bonds), and in such case notices to the Holders may be given by delivery of the relevant notice to the relevant clearing system or depositary and such notices shall be deemed to have been given to the Holders holding through the relevant clearing system or depositary on the date of delivery to the relevant clearing system or depositary.

- (b) Notices to be given by any Covered Bondholder shall be in writing and given by lodging the notice, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or Covered Bonds, with the Principal Paying Agent at its specified office. Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.
- (c) For so long as any Registered Covered Bonds remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the LLP have agreed under the Trust Deed that it shall, during any period in which it is neither subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934 (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish to any Holder of, or beneficial owner of an interest in, such Registered Covered Bonds, or to any prospective purchaser thereof, upon request of such Holder, such information as is required to be provided pursuant to Rule 144A(d)(4) under the Securities Act in order to permit compliance with Rule 144A in connection with the resale of such restricted securities.

12. Meetings of Covered Bondholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of the Covered Bondholders of any Series to consider any matter affecting their interests, including, subject to the agreement of the Issuer, the modification by Extraordinary Resolution of the terms and conditions of such Covered Bonds of such Series or the related Receipts and/or Coupons or of any of the LLP Transaction Documents (subject as provided below and in the Trust Deed). Such a meeting may be convened by the Issuer, the LLP or the Bond Trustee.

The quorum at any such meeting in respect of any Series for passing an Extraordinary Resolution is persons holding or representing at least 5 per cent of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting persons being or representing Covered Bondholders of such Series whatever the nominal amount of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds of a Series, the related Receipts or the Coupons or the Trust Deed (including a reduction or cancellation of the amount payable in respect of such Covered Bonds by the Issuer or under the Covered Bond Guarantee, the alteration of the currency in which payments under such Covered Bonds are to be made (other than a redenomination into Euro), the alteration of the majority required to pass an Extraordinary Resolution or the sanction of any scheme or proposal for the exchange of such Covered Bonds in respect of such Series (each, a “**Series Reserved Matter**” all as more particularly set out in the Trust Deed)), the quorum shall be persons holding or representing not less than two-thirds of the Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding.

An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series. Pursuant to the Trust Deed, the Bond Trustee may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Bond Trustee there is no conflict between the holders of the such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the foregoing, any Extraordinary Resolution to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 8 or to direct the Bond Trustee or the LLP Security Trustee (in respect of the property which is secured for the benefit of the Covered Bondholder) to take any enforcement action (each a “**Programme Resolution**”) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholders of any Series. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the nominal amount of the Covered Bonds of any Series so held or represented. A Programme

Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Series of Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the nominal amount of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Bond Trustee, the LLP Security Trustee, the LLP and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series and without the consent of the other LLP Secured Creditors to:

- (a) any modification of the Covered Bonds of one or more Series, the related Receipts and/or Coupons or any LLP Transaction Document provided that the Rating Condition will be met if such modifications are made; or
- (b) any modification of the Covered Bonds of any one or more Series, the related Receipts and/or Coupons or any LLP Transaction Document which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law,

provided that paragraph (a) above shall not apply to any Series Reserved Matter.

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series or the LLP Transaction Documents, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default shall not be treated as such and shall be waived, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders. The LLP Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders or any other LLP Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the LLP Transaction Documents, provided that, in any such case, (a) it is not, in the opinion of the LLP Security Trustee, materially prejudicial to the interests of any of the LLP Secured Creditors (other than the Seller) (in which respect the LLP Security Trustee may (without further enquiry) rely upon the consent in writing of any such LLP Secured Creditor (other than Covered Bondholders) as to the absence of material prejudice to the interests of such LLP Secured Creditor) or if it is not of that opinion in relation to any such LLP Secured Creditor or any such LLP Secured Creditor (other than Covered Bondholders) acting reasonably has informed the LLP Security Trustee in writing that such waiver, authorisation or determination will be materially prejudicial to its interests, such LLP Secured Creditor has given its written consent to such waiver, authorisation or determination and (b) the LLP Security Trustee has not been informed in writing by any such LLP Secured Creditor (other than Covered Bondholders) acting reasonably that such LLP Secured Creditor will be materially prejudiced thereby (other than a LLP Secured Creditor who has given its written consent as aforesaid).

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds for the time being outstanding, the related Receiptholders and the Couponholders and the other LLP Secured Creditors, and unless the LLP Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other LLP Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

Subject to such amendment of the Trust Deed and such other conditions as the Bond Trustee may require, but without the consent of the Covered Bondholders of any Series or the Receiptholders or Couponholders appertaining thereto (if any), the Bond Trustee may also agree, subject to such Covered Bonds, and the Receipts and Coupons appertaining thereto being irrevocably guaranteed by the Issuer, to the substitution of a subsidiary or holding company of the Issuer (other than the LLP) or any subsidiary of any such holding company in place of the Issuer as principal debtor under such Covered Bonds and the Receipts and Coupons appertaining thereto (if any) and the Trust Deed insofar as it relates to such Covered Bonds.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Bond Trustee and the LLP Security Trustee shall have regard to the general interests of the

Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the LLP Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the LLP Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 6 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 6 (*Taxation*) pursuant to the Trust Deed.

The Issuer may, without the consent of the holders of the Covered Bonds of any Series or any Receipts or Coupons relating thereto, or any other LLP Secured Creditor consolidate with, merge or amalgamate into or transfer its respective assets substantially as an entirety to, any corporation organised under the laws of the United Kingdom, or any political sub-division thereof, provided that (a) a certificate of two Directors of the Issuer and a certificate of a Designated Member of the LLP is delivered to the Bond Trustee and the LLP Security Trustee to the effect that immediately after giving effect to such transaction no Issuer Event of Default and no LLP Event of Default, respectively, and no Potential Issuer Event of Default and no Potential LLP Event of Default, respectively, will have happened and be continuing and (b) unless the Issuer is the surviving entity, the Issuer shall procure that the surviving or transferee company assumes its obligations as Issuer under the Trust Deed, each other relevant LLP Transaction Document and all of the outstanding Covered Bonds of all Series, in place of the Issuer and (c) in the case of an assumption of the obligations of the Issuer by a successor or transferee company, the guarantee of the LLP is fully effective on the same basis in relation to the obligations of such successor or transferee company and (d) certain other conditions set out in the Trust Deed are met. Upon the assumption of the obligations of the Issuer by such surviving or transferee company, the predecessor Issuer shall (subject to the provisions of the Trust Deed) have no further liabilities under or in respect of the Trust Deed or the outstanding Covered Bonds of each Series then outstanding or any Coupons or Receipts appertaining thereto and the other LLP Transaction Documents. Any such assumption shall be subject to the relevant provisions of the Trust Deed. The Trust Deed provides that any such assumption shall be notified to the holders of all Series of Covered Bonds in accordance with the relevant terms and conditions of such Covered Bonds and the other LLP Secured Creditors.

For the purposes hereof:

“Potential Issuer Event of Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default; and

“Potential LLP Event of Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default.

13. Indemnification of the Bond Trustee and/or LLP Security Trustee and Bond Trustee and/or LLP Security Trustee Contracting with the Issuer and/or the LLP

If, in connection with the exercise of its powers, trusts, authorities or discretions (a) the Bond Trustee or the LLP Security Trustee is of the opinion that the interests of the holders of the Covered Bonds then outstanding of any one or more Series would be materially prejudiced thereby, the Bond Trustee or the LLP Security Trustee shall not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a written resolution of such Covered Bondholders of at least a clear majority of the Principal Amount Outstanding of Covered Bonds of the relevant Series then outstanding (a) **“Written Resolution”**) or (b) the LLP Security Trustee is of the opinion (other than in relation to any enforcement action, when it shall only have regard to the interests of the Covered Bondholders) that the interests of a LLP Secured Creditor (other than the Seller) would be materially prejudiced thereby, or any such LLP Secured Creditor (other than the Covered Bondholders) (acting reasonably) informs the LLP Security Trustee in writing that it would be materially prejudiced thereby, the LLP Security Trustee shall only exercise

such power, trust, authority or discretion with the written consent of such LLP Secured Creditor(s) and provided that the LLP Security Trustee is satisfied that such exercise will not be materially prejudicial to the interests of the Covered Bondholders. In the exercise of its powers, trusts, authorities and discretions (other than as aforesaid), the LLP Security Trustee may not act on behalf of the Seller.

The Trust Deed and the LLP Security Deed contain provisions for the indemnification of the Bond Trustee and the LLP Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the LLP Security Deed also contain provisions pursuant to which each of the Bond Trustee and LLP Security Trustee, respectively, is entitled, *inter alia*, (a) to enter into business transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or the other LLP Secured Creditors and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the LLP Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Mortgages or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the LLP Security Trustee. Neither the Bond Trustee nor the LLP Security Trustee will be responsible for (a) supervising the performance by the Issuer or any other party to the LLP Transaction Documents of their respective obligations under the LLP Transaction Documents and the Bond Trustee and the LLP Security Trustee will be entitled to assume, until they each have written notice to the contrary, that all such persons are properly performing their duties; (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the LLP Transaction Documents under the LLP Transaction Documents; (c) monitoring the Mortgage Portfolio, including, without limitation, whether the Mortgage Portfolio is in compliance with the Asset Coverage Test or the Amortisation Test; or (d) monitoring whether Mortgages and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the LLP Security Trustee will be liable to any Covered Bondholder or other LLP Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the LLP Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the LLP Security and the LLP Transaction Documents.

14. Further Issues

The Issuer may from time to time, without the consent of the Covered Bondholders of any Series or the Holders of Receipts or Coupons appertaining thereto (if any), create and issue in accordance with the Trust Deed further Tranches of Covered Bonds of such Series so that such further Tranche or Tranches of Covered Bonds shall be consolidated and form a single Series (and be fully fungible) with such Series.

15. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Covered Bonds on the Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

16. Governing Law

The Trust Deed, the Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other LLP Transaction Documents (other than certain documents to be executed pursuant to the Jersey Corporate Services Agreement) are governed by, and shall be construed in accordance with, English law and the Issuer and the LLP agree that the courts of England are the most appropriate and convenient court to settle any dispute arising from or connected with the Covered Bonds and accordingly, that such courts have exclusive jurisdiction and that they will not agree to the contrary unless specifically stated to the contrary.

OTHER COVERED BONDHOLDER CONSIDERATIONS

USE OF PROCEEDS

The net proceeds of the issue of each Series of Covered Bonds issued by the Issuer will be used in the conduct of the business of the Issuer. The relevant Final Terms may contain further information regarding the use of such proceeds, including the principal intended uses and any order of priority in which such uses are ranked.

TAXATION

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and practice. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and all payments made thereon and may not apply to certain classes of persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other person. Any holders of Covered Bonds who are in doubt as to their tax position should consult their professional advisers. The following comments relate only to withholding and do not deal with any other United Kingdom tax aspects of acquiring, holding or disposing of the Covered Bonds that may be applicable to holders of Covered Bonds (including, for instance, income tax, capital gains tax and corporation tax stamp duty or stamp duty reserve tax). Prospective holders of Covered Bonds should be aware that the particular terms of issue of any Series of Covered Bonds as specified in the applicable Final Terms may affect the tax treatment of that and other Series of Covered Bonds. The comments below do not deal with the tax consequences of any substitution of the Issuer in accordance with Condition 12 of the Covered Bonds.

The following is a general guide and should be treated with appropriate caution. Prospective holders of Covered Bonds who are in any doubt as to their tax position should consult their professional advisers. Prospective Holders of Covered Bonds who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Covered Bonds are advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions). In particular, prospective holders of Covered Bonds should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Covered Bonds whether or not such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

PAYMENT OF INTEREST BY THE ISSUER ON THE COVERED BONDS

Interest on the Covered Bonds may be paid without withholding or deduction for or on account of United Kingdom tax where the Covered Bonds are listed and continue to be listed on a “recognised stock exchange”, as defined in section 841 of the Income and Corporation Taxes Act 1988 (“ICTA”) (the London Stock Exchange is a recognised stock exchange for this purpose).

In all cases falling outside the exemption described above, interest on the Covered Bonds may be paid after deduction of United Kingdom income tax at the lower rate (currently 20 per cent) subject to such relief as may be available, for example under the provisions of any applicable double taxation treaty, or in certain other circumstances. However, this withholding will not apply if the relevant interest is paid on Covered Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Covered Bonds part of a borrowing with a total term of a year or more.

PAYMENTS BY THE LLP

If the LLP makes any payment in respect of the Covered Bonds such payment may be subject to United Kingdom withholding tax, whether or not the Covered Bonds are listed on a “recognised stock exchange” within the meaning of section 841 of ICTA. If payments by the LLP are subject to any withholding or deduction for or on account of tax, the LLP will not be required to pay any additional amounts.

PROVISION OF INFORMATION

Holders of Covered Bonds should note that where any interest on Covered Bonds is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a “paying agent”), or is received by any person in the United Kingdom acting on behalf of the relevant holder of Covered Bonds (other than solely by clearing or arranging the clearing of a cheque) (a “collecting agent”), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue & Customs details of the payment and certain details relating to the relevant holder of Covered Bonds (including the holder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the holder of Covered Bonds is resident in the United Kingdom for United Kingdom taxation purposes. Where a holder of Covered Bonds is not so resident, the details provided to HM Revenue

& Customs may, in certain cases, be passed by HM Revenue & Customs to the tax authorities of the jurisdiction in which the holder is resident for taxation purposes.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption on any Covered Bond where the amount payable on redemption is greater than the issue price of the Covered Bond.

EU SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other entities established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the LLP, the Paying Agents or any other person would be obliged to pay additional amounts to the Covered Bondholders or to otherwise compensate Covered Bondholders for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive (if there is such a Member State).

UNITED STATES TAXATION

The following summary describes certain of the principal US federal income tax consequences resulting from the purchase, ownership and disposition of Covered Bonds. This summary does not purport to consider all the possible US federal income tax consequences of the purchase, ownership and disposition of the Covered Bonds and is not intended to reflect the individual tax position of any beneficial owner of Covered Bonds. The summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed US Treasury regulations promulgated thereunder, published rulings by the US Internal Revenue Service ("IRS") and court decisions, all in effect as of the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively. This summary is limited to investors who purchase the Covered Bonds at initial issuance at the initial issue price and hold the Covered Bonds as "capital assets" within the meaning of section 1221 of the Code (i.e., generally, property held for investment) and does not purport to deal with investors in special tax situations, such as financial institutions, tax exempt organisations, insurance companies, regulated investment companies, dealers in securities or currencies, persons purchasing Covered Bonds other than at original issuance, persons holding notes as a hedge against currency risks or as a position in a "straddle," "conversion transaction," or "constructive sale" transaction for tax purposes, or persons whose functional currency (as defined in section 985 of the Code) is not the US dollar. The summary does not include any description of the tax laws of any state, local or foreign governments that may be applicable to the Covered Bonds or the holders thereof.

Prospective purchasers of the Covered Bonds should consult their own tax advisers concerning the application of US federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Covered Bonds arising under the laws of any other taxing jurisdiction.

As used herein, the term "US Holder" means a beneficial owner of a Covered Bond who or which is (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or of any state thereof (including the District of Columbia), or (iii) any other person who is subject to US federal income taxation on a net income basis with respect to the Covered Bonds. As used herein, the term "Non-US Holder" means a beneficial owner of a Covered Bond that is not a US Holder. In the case of a holder of Covered Bonds that is a partnership for US federal income tax purposes, each partner will take into account its allocable share of income or loss from the Covered Bonds, and will take such income or loss into account under the rules of taxation applicable to such partner, taking into account the activities of the partnership and the partner.

The discussion of tax matters in this Base Prospectus is not intended or written to be used, and cannot be used by any taxpayer for the purpose of avoiding US federal, state or local income tax penalties, and was written to support the promotion or marketing of the matters addressed in such Base Prospectus. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

TREATMENT OF COVERED BONDS

Except as may be otherwise provided in a Final Terms or Supplemental Base Prospectus, each Covered Bond that is offered to prospective investors within the United States will be issued in a manner consistent with, and with characteristics that are typical of, indebtedness for US federal income tax purposes. This discussion assumes that each Covered Bond will be indebtedness for US Federal income tax purposes.

US HOLDERS OF COVERED BONDS

PAYMENTS OF INTEREST

Generally, payments of interest on a Covered Bond will be taxable to a US Holder as ordinary interest income at the time such payments are accrued or are received, in accordance with the US Holder's regular method of accounting for US federal income tax purposes.

ORIGINAL ISSUE DISCOUNT

General

The following summary is a general discussion of the US federal income tax consequences to US Holders of the purchase, ownership and disposition of a Covered Bond issued with original issue discount "OID" (a "**Discount Covered Bond**"). Special rules apply to OID on a Discount Covered Bond that is denominated in a Foreign Currency. See "*– Foreign Currency Covered Bonds – OID*".

For US federal income tax purposes, OID is the excess of the stated redemption price at maturity of a Covered Bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally defined as 1/4 of 1-per cent of the Covered Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date). The issue price of each Covered Bond in an issue of Covered Bonds is the first price at which a substantial amount of such issue of Covered Bonds has been sold (ignoring sales to bond houses, broker-dealers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers). The stated redemption price at maturity of a Covered Bond generally is the sum of all payments provided for by the Covered Bond other than qualified stated interest payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

Payments of qualified stated interest on a Covered Bond are taxable to a US Holder as ordinary interest income at the time such payments are accrued or are received, in accordance with the US Holder's regular method of accounting for US federal income tax purposes. A US Holder of a Discount Covered Bond having a maturity of more than one year from the date of issue must include OID in income as ordinary interest income for US federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such US Holder's regular method of tax accounting. In general, the amount of OID included in income by the initial US Holder of a Discount Covered Bond is the sum of the daily portions of OID with respect to such Discount Covered Bond for each day during the taxable year on which such US Holder held such Discount Covered Bond. The "daily portions" of OID on any Discount Covered Bond are determined by allocating to each day in an accrual period a rateable portion of the OID allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the Discount Covered Bond as long as (i) each accrual period is no longer than one year, and (ii) each scheduled payment of principal and interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to each accrual period is generally equal to the excess of (i) the product of the Discount Covered Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) over (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Covered Bond at the beginning of the first accrual period is its issue price of the Discount Covered Bond. Thereafter, the "adjusted issue price" of a Discount Covered Bond is the sum of the issue price of the Discount Covered Bond plus the amount of OID previously includable in the gross income of the holder reduced by the amount of any payments previously made on the Discount Covered Bond other than payments of qualified stated interest. Under these rules, US Holders generally will have to include in income increasingly greater amounts of OID in successive accrual periods.

Election to Treat all Interest as OID

A US Holder of a Covered Bond may elect to include in gross income all interest (including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest) that accrues on the Covered Bond by using the constant yield method described in "*– Original Issue Discount – General*" with certain modifications. The election must be made for the taxable year in which the US Holder acquires the Covered Bond and will generally apply only to the Covered Bond (or Covered Bonds) identified by the US Holder in a statement attached to the US

Holder's timely filed US federal income tax return. The election may not be revoked without the consent of the Internal Revenue Service (the "IRS"). If a US Holder makes the election with respect to a Covered Bond with "amortisable bond premium" (as described in "*Amortisable Bond Premium*"), then the electing US Holder is deemed to have elected to apply amortisable bond premium against interest with respect to all debt instruments with amortisable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing US Holder as of the beginning of the taxable year in which any Covered Bond (with respect to which the election is made) is acquired and any such debt instrument thereafter acquired. The deemed election with respect to amortisable bond premium may not be revoked without the consent of the IRS.

SHORT-TERM COVERED BONDS

Generally, an individual or other-cash basis US Holder of Covered Bonds having a fixed maturity date not more than 1 year from the date of issue ("**Short-Term Covered Bonds**") is not required to accrue OID for US federal income tax purposes unless it elects to do so. An election by a cash basis US Holder applies to all short-term obligations acquired on or after the beginning of the first taxable year to which the election applies, and for all subsequent taxable years unless the consent is secured from the IRS to revoke the election. Accrual-basis US Holders and certain other US Holders, including banks, regulated investment companies, dealers in securities, common trust funds, US Holders who hold Short-Term Covered Bonds as part of certain identified hedging transactions, certain pass-through entities and cash-basis US Holders who so elect, are required to accrue OID on Short-Term Covered Bonds on either a straight-line basis or, at the election of the US Holder, under the constant yield method (based on daily compounding). In the case of a US Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Covered Bonds will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. US Holders who are not required and do not elect to accrue OID on Short-Term Covered Bonds will be required to defer deductions for interest on borrowings allocable to Short-Term Covered Bonds in an amount not exceeding the deferred income until the deferred income is realised.

VARIABLE RATE DEBT INSTRUMENTS

Generally, Covered Bonds that are issued with a variable rate of interest (a "**Floating Rate Covered Bond**") are subject to special rules whereby a Floating Rate Covered Bond will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Floating Rate Covered Bonds by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date or (ii) 15 per cent of the total noncontingent principal payments, (b) it does not provide for any stated interest other than stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it provides that a qualified floating rate or objective rate in effect at any time during the term of the Covered Bond is set at a current value of that rate (i.e., the value of the rate on any day that is no earlier than three months prior to the first rate day on which the value is in effect and no later than one year following that first day).

A "qualified floating rate" is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Covered Bonds are denominated. Although a multiple of a qualified floating rate will generally not itself constitute a qualified floating rate, a variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35 will constitute a qualified floating rate. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Covered Bonds together will constitute a single qualified floating rate. Two or more qualified floating rates will be conclusively presumed to meet the requirements of the previous sentence if the values of all rates on the issue date are within 25 basis points of each other. A variable rate is not a qualified floating rate if it is subject to certain restrictions (including caps floors, governors, or other similar restrictions) unless such restrictions are

fixed throughout the term of the Floating Rate Covered Bond or are not reasonably expected to significantly affect the yield on the Floating Rate Covered Bond.

An “objective rate” is a rate other than a qualified floating rate that is determined using a single fixed formula and that is based upon objective financial or economic information, other than information that is within the control of the issuer or a related party, or that is unique to the circumstances of the issuer or a related party such as dividends, profits or the value of the issuer’s (or related party’s) stock (but not the issuer’s credit quality). Despite the foregoing, a variable rate of interest on Floating Rate Covered Bonds will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Floating Rate Covered Bonds term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Floating Rate Covered Bonds’ term. A “qualified inverse floating rate” is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to reflect inversely contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or other restrictions that are fixed throughout the term of the Floating Rate Covered Bonds or are not reasonably expected to significantly affect the yield on the Floating Rate Covered Bonds).

Generally, if a Floating Rate Covered Bond provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the Floating Rate Covered Bonds’ issue date is intended to approximate the fixed rate, then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. A fixed rate and a variable rate will be conclusively presumed to meet the previous requirements if the value of the variable rate on the issue date of the Floating Rate Covered Bonds does not differ from the value of the fixed rate by more than 25 basis points.

If a Floating Rate Covered Bond provides for stated interest at a single qualified floating rate or objective rate that is unconditionally payable in cash or in property (other than debt instruments of the issuer) or that will be constructively received by the US Holder at least annually, then (a) all stated interest with respect to the Covered Bond is qualified stated interest, (b) the amount of qualified stated interest and the amount of OID, if any, is determined by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Covered Bond, and (c) the qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period under the foregoing rules.

If a Floating Rate Covered Bond does not provide for stated interest at a single qualified floating rate or objective rate, or at a single fixed rate (other than at a single fixed rate for an initial period of one year or less), the amount of qualified stated interest and OID on the Covered Bond are generally determined by (i) determining a fixed rate substitute for each variable rate provided under the Floating Rate Covered Bond (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the yield that is reasonably expected for the Covered Bond), (ii) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above), (iii) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument (by applying the general OID rules as described in “– *Original Issue Discount – General*”), and (iv) making the appropriate adjustments for actual variable rates during the applicable accrual period.

If a Floating Rate Covered Bond provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate and in addition provides for stated interest at a single fixed rate (other than a single fixed rate for an initial period), the amount of interest and OID is determined as in the immediately preceding paragraph with the modification that the Floating Rate Covered Bond is treated, for purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or qualified inverse floating rate, if the Covered Bond provides for a qualified inverse floating rate) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Covered Bond as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for a qualified floating rate (or qualified inverse floating rate) rather than a fixed rate.

AMORTISABLE BOND PREMIUM

Generally, a US Holder that purchases a Covered Bond for an amount that is in excess of the sum of all amounts payable on the Covered Bond after its acquisition date (other than payments of qualified stated interest) will be considered to have purchased the Covered Bond with “amortisable bond premium” equal to such excess. A US Holder of such a Covered Bond will not be subject to OID and may elect to amortise such premium using a constant yield method over the remaining term of the Covered Bond and may offset qualified stated interest otherwise required to be included in respect of the Covered Bond with respect to an accrual period by the bond premium allocable to the accrual period. If the bond premium allocable to the accrual period exceeds the qualified stated interest allocable to the accrual period, the excess is treated as a bond premium deduction for the accrual period. However, the amount treated as a bond premium deduction is limited to the amount by which the US Holder’s total interest inclusions on the Covered Bond in prior accrual periods exceed the total amount treated by the US Holder as a bond premium deduction on the Covered Bond in prior accrual periods. If the bond premium allocable to an accrual period exceeds the sum of the qualified stated interest allocable to the accrual period and the amount treated as a bond premium deduction for the accrual period as described above, the excess is carried forward to the next accrual period and is treated as bond premium allocable to that period. Special rules apply for determining the amortisation of bond premium on Covered Bonds that are classified as “variable rate debt instruments”, Covered Bonds that provide for certain alternative payment schedules, and Covered Bonds that provide for certain contingencies. Any election to amortise bond premium with respect to any Covered Bond (or other general debt obligations) applies to all taxable debt obligations held by the US Holder at the beginning of the first taxable year to which the election applies and to all debt obligations thereafter acquired in such taxable year and all subsequent tax years. The election may not be revoked without the consent of the IRS.

SALE, EXCHANGE OR RETIREMENT OF A COVERED BOND

Except as discussed above, upon the sale, exchange or retirement of a Covered Bond, a US Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest, which amounts will be taxable as ordinary income) and such US Holder’s adjusted tax basis in the Covered Bond. A US Holder’s adjusted tax basis in a Covered Bond generally will equal such US Holder’s initial investment in the Covered Bond increased by any OID included in income, decreased by the amount of any payments (other than qualified stated interest) and any amortisable bond premium applied to reduce interest income with respect to such Covered Bond. Such gain or loss generally will be long-term capital gain or loss if the Covered Bond has been held by such US Holder for more than one year at the time of such sale, exchange or retirement.

Certain of the Covered Bonds may be redeemable at the option of the Issuer prior to their stated maturity and/or may be repayable at the option of the holder prior to their stated maturity. Covered Bonds containing such features may be subject to the rules that differ from the general rules discussed above. US Holders intending to purchase Covered Bonds with such features should consult their own tax advisors regarding the US federal income tax consequences to them of the purchase, holding and disposition of such Covered Bonds, since the OID consequences will depend, in part, on the particular terms and features of such Covered Bonds.

FOREIGN CURRENCY COVERED BONDS

The following summary relates to Covered Bonds that are denominated in a currency or basket of currencies other than the US dollar (“**Foreign Currency Covered Bonds**”). It does not apply to US Holders whose functional currency is not the US dollar.

Payments of Interest In a Foreign Currency

Cash Method

A US Holder who uses the cash method of accounting for US federal income tax purposes and who receives a payment of interest on a Covered Bond (other than OID) will be required to include in income the US dollar value of the Foreign Currency payment (determined on the date such payment is received) regardless of whether the payment is in fact converted to US dollars at that time, and such US dollar value will be the US Holder’s tax basis in such Foreign Currency.

Accrual Method

A US Holder who uses the accrual method of accounting for US federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, will be required to include in income the US dollar value of the amount of interest income (including OID and reduced by amortisable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Covered Bond during an accrual period. The US dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year. A US Holder may elect, however, to translate such accrued interest income using the rate of exchange on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the rate of exchange on the last day of the first taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a US Holder may translate such interest using the rate of exchange on the date of receipt. The above election will apply to other obligations held by the US Holder and may not be revoked without the consent of the IRS. Prior to making such an election, a US Holder of Covered Bonds should consult his own tax advisor as to the consequences resulting from such an election with respect to his own particular situation.

A US Holder will recognise exchange gain or loss (which will be treated as US source ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of ordinary income or loss recognised will equal the difference, if any, between the US dollar value of the Foreign Currency payment received (determined on the date such payment is received) in respect of such accrual period and the US dollar value of interest income that has accrued during such accrual period (as determined above).

Purchase, Sale, Exchange and Retirement of Covered Bonds

A US Holder who purchases a Covered Bond with previously owned Foreign Currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such US Holder's tax basis in the Foreign Currency and the US dollar fair market value of the Foreign Currency used to purchase the Covered Bond, determined on the date of purchase.

Generally, upon the sale, exchange or retirement of a Covered Bond, a US Holder will recognise taxable gain or loss equal to the difference between the amounts realised on the sale, exchange or retirement and such US Holder's adjusted tax basis in the Covered Bond. Such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Covered Bond has been held by such US Holder for more than one year. To the extent the amount realised represents accrued but unpaid interest, however, such amounts must be taken into account as ordinary interest income, with exchange gain or loss computed as described in "*Payments of Interest In a Foreign Currency*" above. If a US Holder receives Foreign Currency on such a sale, exchange or retirement the amount realised will be based on the US dollar value of the Foreign Currency on the date the payment is received or the instrument is disposed of (or deemed disposed of). A US Holder's adjusted tax basis in a Covered Bond will equal the cost of the Covered Bond to such US Holder, increased by the amounts of any OID previously included in income by the US Holder with respect to such Covered Bond and reduced by any amortised acquisition or other premium and any principal payments received by the US Holder. A US Holder's tax basis in a Covered Bond, and the amount of any subsequent adjustments to such holder's tax basis, will be the US dollar value of the Foreign Currency amount paid for such Covered Bond, or of the Foreign Currency amount of the adjustment, determined on the date of such purchase or adjustment.

Gain or loss realised upon the sale, exchange or retirement of a Covered Bond that is attributable to fluctuations in currency exchange rates will be US source ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the US dollar value of the Foreign Currency Principal Amount Outstanding of the Covered Bond, determined on the date such payment is received or the Covered Bond is disposed of, and the US dollar value of the Foreign Currency Principal Amount Outstanding of the Covered Bond, determined on the date the US Holder acquired the Covered Bond. Such Foreign Currency gain or loss will be recognised only to the extent of the total gain or loss realised by the US Holder on the sale, exchange or retirement of the Covered Bond.

OID

In the case of a Discount Covered Bond or Short-Term Covered Bond, (i) OID is determined in units of the Foreign Currency, (ii) accrued OID is translated into US dollars as described in "*Payments*

of Interest In a Foreign Currency – Accrual Method’ above and (iii) the amount of Foreign Currency gain or loss on the accrued OID is determined by comparing the amount of income received attributable to the discount (either upon payment, maturity or an earlier disposition), as translated into US dollars at the rate of exchange on the date of such receipt, with the amount of OID accrued, as translated above.

Amortisable Bond Premium

Amortisable bond premium on a Covered Bond will be computed in the units of the Foreign Currency in which the Covered Bond is denominated (or in which the payments are determined). Amortisable bond premium properly taken into account will reduce the interest income in units of the Foreign Currency. Exchange gain or loss is realised with respect to the bond premium with respect to a Covered Bond issued with amortisable bond premium by treating the portion of premium amortised with respect to any period as a return of principal. With respect to any US Holder that does not elect to amortise bond premium, the amount of bond premium will constitute a market loss when the bond matures.

Exchange of Foreign Currencies

A US Holder will have a tax basis in any Foreign Currency received as interest or on the sale, exchange or retirement of a Covered Bond equal to the US dollar value of such Foreign Currency, determined at the time the interest is received or at the time of the sale, exchange or retirement. Any gain or loss realised by a US Holder on a sale or other disposition of Foreign Currency (including its exchange for US dollars or other use) will be US source ordinary income or loss.

FOREIGN TAX CREDIT

The total gross amount of interest, OID, plus any additional amounts (pursuant to Condition 6 (*Taxation*)) with respect thereto, will constitute interest income subject to US federal income tax. This amount will be considered income from sources outside the United States, and, with certain exceptions, will be grouped together with other items of “passive” income for purposes of computing the foreign tax credit allowable to a US Holder. If the interest or OID is subject to a withholding tax imposed by a foreign country at a rate of 5 per cent or more, the interest or OID may be considered “high withholding tax interest” for purposes of computing the foreign tax credit. If a US Holder is predominantly engaged in the active conduct of a banking, insurance, financing or similar business, the interest or OID may be considered “financial services income” for purposes of computing the foreign tax credit. For taxable years beginning after December 31, 2006, then only two foreign tax credit limitation categories will be “passive category income” and “general category income”. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of United Kingdom taxes.

Potential purchasers of Covered Bonds should carefully consider the applicable Final Terms for information regarding the US federal income tax consequences of payments by the Issuer of other taxes and of additional amounts.

NON-US HOLDERS OF COVERED BONDS

Subject to the discussion of certain Non-US Holders and the discussion of backup withholding below, (a) payment of principal, premium, redemption amount and interest by the Issuer or any paying agent to a Non-US Holder will not be subject to US federal income or withholding tax, provided that such Non-US Holder provides the Issuer, when necessary, appropriate documentation evidencing its status as a Non-US Holder, (b) gain realised by a Non-US Holder on the sale or redemption of the Covered Bonds is not subject to US federal income tax or withholding tax and (c) the Covered Bonds are not subject to US federal estate tax if held by an individual who was a Non-US Holder at the time of his death. Special rules may apply in the case of Non-US Holders (i) that are engaged in a US trade or business, (ii) that are former citizens or long-term residents of the United States, “controlled foreign corporations”, “passive foreign investment companies”, corporations which accumulate earnings to avoid US federal income tax, and certain foreign charitable organisations, each within the meaning of the Code, or (iii) certain non-resident alien individuals who are present in the United States for 183 days or more during a taxable year. Such persons are urged to consult their US tax advisers before purchasing Covered Bonds.

INFORMATION REPORTING AND BACKUP WITHHOLDING

For each calendar year in which the Covered Bonds are outstanding, each DTCC participant or indirect participant holding an interest in a Covered Bond on behalf of a beneficial owner of a Covered Bond and each paying agent making payments in respect of a Registered Covered Bond will generally be required to provide the IRS with certain information, including such beneficial owner's name, address, taxpayer identification number (either such beneficial owner's Social Security number, its employer identification number or its IRS individual taxpayer identification number, as the case may be), and the aggregate amount of interest (including OID) and principal paid to such beneficial owner during the calendar year. These reporting requirements, however, do not apply with respect to certain beneficial owners, including corporations, securities broker-dealers, other financial institutions, tax-exempt organisations, qualified pension and profit sharing trusts and individual retirement accounts.

In the event that a beneficial owner of a Covered Bond fails to establish its exemption from such information reporting requirements or is subject to the reporting requirements described above and fails to supply its correct taxpayer identification number in the manner required by applicable law, or underreports its tax liability, as the case may be, the DTCC participant or indirect participant holding such interest on behalf of such beneficial owner or paying agent making payments in respect of a Covered Bond may be required to "backup" withhold a tax on each payment of interest and principal with respect to Covered Bonds. This backup withholding tax is not an additional tax and may be credited against the beneficial owner's US federal income tax liability if the required information is furnished to the IRS. Compliance with the certification procedures contained in IRS Forms W-8BEN, W-8ECI or W-8EXP as appropriate will establish an exemption from information reporting and backup withholding for those Non-US Holders who are not otherwise exempt recipients.

ERISA CONSIDERATIONS

By its purchase of any Series of Covered Bonds issued under this Covered Bond Programme, the purchaser thereof will be deemed to have represented and warranted that (i) it is not and will not be, and is not purchasing such Covered Bonds with assets of (A) an "employee benefit plan" as defined in and subject to ERISA, (B) a "plan" subject to Section 4975 of the Internal Revenue Code, as amended (the "Code"), or (C) any entity whose underlying assets are deemed for purposes of ERISA or the Code to include "plan assets" by reason of such plan investment in the entity, or (ii) its acquisition and holding of such Covered Bonds do not and will not give rise to a non-exempt prohibited transaction described in Section 406 of ERISA or Section 4975 of the Code.

In addition to the foregoing, the acquisition, holding and transfer of each Series of Covered Bonds issued under this Covered Bond Programme will also be subject to restrictions as described in the Final Terms in relation to any such issuance, which may prohibit or limit the acquisition, holding or transfer of such Covered Bonds to employee benefit plans, as defined under ERISA or plans subject to Section 4975 of the Code or entities deemed to hold "plan assets" of such an employee benefit plan or plan.

FORMS OF COVERED BONDS

SUMMARY OF PROVISIONS RELATING TO THE COVERED BONDS WHILE IN GLOBAL FORM

Covered Bonds may, subject to all applicable legal and regulatory requirements, be issued in Series comprising either Covered Bonds in bearer form (“**Bearer Covered Bonds**”) or Covered Bonds in registered form (“**Registered Covered Bonds**”), as specified in the relevant Final Terms. No single Series of Covered Bonds offered in reliance on Rule 144A may include Bearer Covered Bonds.

The new global note structure was implemented on 30 June 2006 (the “**NGN Implementation Date**”). All Bearer Covered Bonds will be issued in new global note (“**NGN**”) form (set out in Part I(a) and Part II(a) of Schedule 1 to the Trust Deed), or in such form as the relevant parties may agree.

The NGN form has been introduced to allow for the possibility of Covered Bonds being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the Euro (the “**Eurosystem**”) and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However in any particular case such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time.

REGISTERED COVERED BONDS

In the case of Registered Covered Bonds, the relevant Final Terms may specify that the Covered Bonds will be issued in global form (“**Global Registered Covered Bonds**”) held in specified clearing systems, as described below, or in definitive form (“**Definitive Registered Covered Bonds**”).

Global Registered Covered Bonds

If Covered Bonds are to be issued in the form of Global Registered Covered Bonds, the Issuer will deliver:

- (a) a Regulation S Global Registered Covered Bond; or
- (b) a Rule 144A Global Registered Covered Bond; or
- (c) an Unrestricted Global Registered Covered Bond and a Restricted Global Registered Covered Bond

(as each such term is defined below), subject to the Agency Agreement (as defined herein) in accordance with their respective terms and as specified in the relevant Final Terms.

Regulation S Global Registered Covered Bonds

In the case of Registered Covered Bonds offered and sold solely outside the United States (as defined in Regulation S) in reliance on Regulation S, such Registered Covered Bonds may be represented by a Global Registered Covered Bond without interest coupons (a “**Regulation S Global Registered Covered Bond**”), which will be deposited on or about the closing date (the “**Closing Date**”) for the relevant Series with HSBC Bank plc as common depositary for Euroclear and/or Clearstream, Luxembourg and registered in the name of HSBC Issuer Services Common Depositary Nominee (UK) Limited as nominee for such common depositary. Interests in any Regulation S Global Registered Covered Bond will be exchangeable (in circumstances described below under “*Exchange and Transfer of Global Registered Covered Bonds for Definitive Registered Covered Bonds*”) for Definitive Registered Covered Bonds (“**Regulation S Definitive Registered Covered Bonds**”) in the relevant form scheduled to the Trust Deed.

Rule 144A Global Registered Covered Bonds

In the case of Registered Covered Bonds offered and sold (as defined in Regulation S) in reliance on Rule 144A, such Registered Covered Bonds may be represented by a Global Registered Covered Bond without interest coupons (a “**Rule 144A Global Registered Covered Bond**”), which, unless otherwise provided in the applicable Final Terms, will be deposited on or about the Closing Date for the relevant Series with a custodian for DTCC and registered in the name of Cede & Co. as nominee for DTCC. Interests in any Rule 144A Global Registered Covered Bond will be exchangeable (in the circumstances described below under “*Exchange and Transfer of Global Registered Covered Bonds for Definitive Registered Covered Bonds*”) for Definitive Registered Covered Bonds (“**US Definitive Registered Covered Bonds**”) in the relevant form scheduled to the Trust Deed. Rule 144A Global Registered Covered Bonds (and any US Definitive Registered Covered Bonds issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Covered Bond as set out under “*Transfer Restrictions*”.

Unrestricted and Restricted Global Registered Covered Bonds

In the case of Registered Covered Bonds offered and sold both pursuant to Regulation S and in reliance on Rule 144A, such Registered Covered Bonds will be represented by two Global Registered Covered Bonds, each without interest coupons (in the case of Registered Covered Bonds which are sold pursuant to Regulation S, an “**Unrestricted Global Registered Covered Bond**” and, in the case of Registered Covered Bonds which are sold in reliance on Rule 144A, a “**Restricted Global Registered Covered Bond**”).

The Unrestricted Global Registered Covered Bond will be deposited on or about the issue date for the relevant Series of Covered Bonds with, and registered in the name of HSBC Issuer Services Common Depository Nominee (UK) Limited as common nominee for Euroclear and Clearstream, Luxembourg. A beneficial interest in the Unrestricted Global Registered Covered Bond may at all times be held only through Euroclear and Clearstream, Luxembourg.

The Restricted Global Registered Covered Bond will, unless otherwise provided in the applicable Final Terms, be deposited on or about the issue date for the relevant Series of Covered Bonds with HSBC Bank USA, National Association as custodian (the “**Custodian**”) for, and registered in the name of Cede & Co. as nominee for, DTCC.

In the circumstances described below under “– *Exchange and Transfer of Global Registered Covered Bonds for Definitive Registered Covered Bonds*”, interests in any Unrestricted Global Registered Covered Bond will be exchangeable for Regulation S Definitive Registered Covered Bonds and interests in any Restricted Global Registered Covered Bond will be exchangeable for US Definitive Registered Covered Bonds and Regulation S Definitive Registered Covered Bonds, in each case in the relevant form scheduled to the Trust Deed. All Registered Covered Bonds (and any Definitive Registered Covered Bonds issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Covered Bonds as set out under “*Transfer Restrictions*”.

Each Unrestricted Global Registered Covered Bond and each Restricted Global Registered Covered Bond will have an ISIN number and a CUSIP number.

Exchange of Interests in Unrestricted and Restricted Global Registered Covered Bonds;

Transfers within and between DTCC, Clearstream, Luxembourg and Euroclear

On or prior to the 40th day after the later of the commencement of the offering of the relevant Series and the issue date for that Series, a beneficial interest in the relevant Unrestricted Global Registered Covered Bond may be transferred to a person who wishes to take delivery of such beneficial interest through the relevant Restricted Global Registered Covered Bond only upon receipt by the relevant Registrar (as defined in the Agency Agreement) of a written certification from the transferor (in the applicable form provided in the Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB who is also a Qualified Purchaser, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Restricted Global Registered Covered Bond, as set out under “*Transfer Restrictions*”.

Beneficial interests in a Restricted Global Registered Covered Bond may be transferred to a person who wishes to take delivery of such beneficial interest through the relevant Unrestricted Global Registered Covered Bond, whether before, on or after such 40th day, only upon receipt by the relevant Registrar of a written certification from the transferor (in the applicable form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available) or to the Issuer or its affiliates.

Any beneficial interest in either the Restricted Global Registered Covered Bond or the Unrestricted Global Registered Covered Bond relating to any Series that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Registered Covered Bond relating to such Series will, upon transfer, cease to be a beneficial interest in such Global Registered Covered Bond and become a beneficial interest in the other Global Registered Covered Bond and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Registered Covered Bond for as long as it remains such an interest.

Owner of Global Registered Covered Bonds and Payments

Subject to certain provisions of the Trust Deed relating to directions, sanctions and consents of Holders of Registered Covered Bonds and to meetings of Covered Bondholders, so long as DTCC or its nominee or Euroclear, Clearstream, Luxembourg or their common nominee nominee is the registered owner or holder of a Global Registered Covered Bond, DTCC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Covered Bonds represented by such Global Registered Covered Bond for all purposes under the Agency Agreement, the Trust Deed and the Covered Bonds. Payments of principal, interest and additional amounts, if any, pursuant to Condition 4, on Global Registered Covered Bonds will be made to DTCC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Trustee, the relevant Registrar, or any Paying Agent or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Registered Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Exchange and Transfer of Global Registered Covered Bonds for Definitive Registered Covered Bonds

Beneficial interests in a Rule 144A Global Registered Covered Bond or a Restricted Global Registered Covered Bond will be exchangeable for US Definitive Registered Covered Bonds: (i) if DTCC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the relevant Restricted Global Registered Covered Bond or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depository; or (ii) if the Issuer, at its option, elects to terminate the book-entry system through DTCC; or (iii) if an Issuer Event of Default occurs as set out in Condition 8; or (iv) if so specified in the relevant Final Terms, if the holder of the relevant Rule 144A Global Registered Covered Bond or Restricted Global Registered Covered Bond requests that such interest be exchanged for US Definitive Registered Covered Bonds; or (v) at the option of the Issuer, if the Issuer, any Paying Agent or the relevant Registrar, by reason of any change in, or amendment to, the laws of the United Kingdom, is or will be required to make any deduction or withholding from any payment under the Covered Bonds which would not be required if such Covered Bonds were in definitive form.

Beneficial interests in a Regulation S Global Registered Covered Bond or an Unrestricted Global Registered Covered Bond will be exchangeable, in whole but not in part, for Regulation S Definitive Registered Covered Bonds: (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or (ii) if an Issuer Event of Default occurs as set out in Condition 8; or (iii) if so specified in the relevant Final Terms, if the holder of the relevant Regulation S Global Registered Covered Bond or Unrestricted Global Registered Covered Bond requests that such interest be exchanged for Regulation S Definitive Registered Covered Bonds; or (iv) at the option of the Issuer, if the Issuer, any Paying Agent or the relevant Registrar, by reason of any change in, or amendment to, the laws of the United Kingdom, is or will be required to make any deduction or withholding from any payment under the Covered Bonds which would not be required if such Covered Bonds were in definitive form.

In such circumstances, (a) the relevant Registrar will be required to notify all Holders of interests in the relevant Global Registered Covered Bonds registered in the name of DTCC or its nominee or Euroclear, Clearstream, Luxembourg or their common nominee, as the case may be, of the availability of Definitive Registered Covered Bonds and (b) the Issuer will, at the cost of the Issuer, cause sufficient Regulation S Definitive Registered Covered Bonds and/or US Definitive Registered Covered Bonds, as the case may be, to be executed and delivered to the relevant Registrar for completion, authentication and dispatch to the relevant Holders. A person having an interest in the relevant Global Registered Covered Bond must provide the relevant Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the relevant Registrar may require to complete, execute and deliver the relevant Definitive Registered Covered Bond; and

- (ii) in the case of a Rule 144A Global Registered Covered Bond or a Restricted Global Registered Covered Bond only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. US Definitive Registered Covered Bonds issued in exchange for a beneficial interest in a Rule 144A Global Registered Covered Bond or a Restricted Global Registered Covered Bond will bear the legends applicable to transfers pursuant to Rule 144A (as set out under “*Transfer Restrictions*”).

If an Unrestricted Global Registered Covered Bond relating to a Series of Covered Bonds of which the Restricted Global Registered Covered Bond forms a part has, pursuant to its terms, been exchanged in whole, but not in part, for Regulation S Definitive Registered Covered Bonds, beneficial interests in the Restricted Global Registered Covered Bond may be transferred to a person who wishes to take delivery thereof in the form of a Regulation S Definitive Registered Covered Bond, subject to the Transfer Restrictions contained in the legend appearing on the face of such Regulation S Registered Covered Bond. Such Regulation S Definitive Registered Covered Bonds shall be registered in such name(s) as DTCC, Euroclear or Clearstream, Luxembourg, as applicable, shall direct in writing.

Upon (i) notification to the relevant Registrar by the Custodian that the appropriate debit entry has been made in the account of the relevant participant of DTCC and (ii) receipt by the relevant Registrar of a certificate, in the form scheduled to the Agency Agreement, given by the transferee of the beneficial interest in the Restricted Global Registered Covered Bond and stating that the transfer of such interest has been made in compliance with the transfer restrictions applicable to the Covered Bonds, and pursuant to and in accordance with Regulation S under the Securities Act, the Issuer shall procure that the relevant Registrar will (against presentation by DTCC or HSBC Bank USA, National Association, as custodian, of the Restricted Global Registered Covered Bond at the specified office of the relevant Registrar or the Transfer Agent, all in accordance with the provisions of the Agency Agreement and, in particular, the regulations concerning the transfer, exchange and registration of Covered Bonds set out in Schedule 4 thereto) decrease the aggregate principal amount of Covered Bonds registered in the name of the holder of, and represented by, the Restricted Global Registered Covered Bond and shall, without charge, procure, in exchange therefor, the delivery, within five Banking Days of the receipt by the relevant Registrar of the Restricted Global Registered Covered Bond of the notification and certification referred to in paragraphs (i) and (ii) above, and registration information required to authenticate and deliver such Regulation S Definitive Registered Covered Bonds, of an equal aggregate principal amount of duly authenticated and completed Regulation S Definitive Registered Covered Bonds substantially in the form (subject to completion) scheduled to the Agency Agreement.

The holder of a Registered Covered Bond may transfer such Registered Covered Bond in accordance with the provisions of Condition 1 of the Terms and Conditions of the Covered Bonds.

The holder of a Definitive Registered Covered Bond may transfer such Covered Bond by surrendering it at the specified office of the relevant Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of US Definitive Registered Covered Bonds issued in exchange for beneficial interests in a Rule 144A Global Registered Covered Bond or a Restricted Global Registered Covered Bond bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a US Definitive Registered Covered Bond, the Issuer will only deliver US Definitive Registered Covered Bonds that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the relevant Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restriction on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

The relevant Registrar will not register the transfer of or exchange of interests in a Global Registered Covered Bond for Definitive Registered Covered Bonds for a period of 15 calendar days preceding the due date for any payment in respect of the Covered Bonds.

With respect to the registration of transfer of any US Definitive Registered Covered Bonds, the relevant Registrar will register the transfer of any such US Definitive Registered Covered Bonds upon receipt by the relevant Registrar of a duly completed certificate in the form of Schedule 4 to the Agency Agreement.

Regulation S Definitive Registered Covered Bonds may be exchangeable for or transferable to a person wanting to take delivery thereof in the form of interests in a Restricted Global Registered Covered Bond; and US Definitive Registered Covered Bonds may be transferable to a person wanting to take delivery thereof in the form of interests in an Unrestricted Global Registered Covered Bond; in each case, upon receipt by the relevant Registrar of a duly completed certificate in the form of Schedule 4 to the Agency Agreement and in accordance with the requirements of the Agency Agreement.

For further information, see “*Transfer Restrictions*”.

BEARER COVERED BONDS

Bearer Covered Bonds will be issued in accordance with the provisions of United States Treasury Regulations 1.163-5(c)(1)(ii) and 1.163-5(c)(2)(i)(D) (“**TEFRA D**”). Bearer Covered Bonds issued in accordance with TEFRA D will be represented upon issue by a temporary global note in bearer form without interest coupons (a “**Temporary Global Covered Bond**”), or if the applicable Final Terms so specifies a permanent global note in bearer form without interest coupons (a “**Permanent Global Covered Bond**”).

Interests in a Temporary Global Covered Bond issued in accordance with TEFRA D will be exchangeable either for Definitive Bearer Covered Bonds or for interests in a Permanent Global Covered Bond, on or after the date which is 40 days after the date on which such Temporary Global Covered Bond is issued and upon certification as to non-US beneficial ownership thereof or otherwise as required by US Treasury Regulations, in accordance with the terms of such Temporary Global Covered Bond and as specified in the relevant Final Terms.

For purposes of complying with TEFRA D, Bearer Covered Bonds may not be beneficially held by a United States person. “**United States person**” means any person who is, for US federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized under the laws of the United States or any political subdivision thereof or therein or (iii) an estate or trust the income of which is subject to United States taxation regardless of its source.

Interests in any Permanent Global Covered Bond will be exchangeable, in whole but not in part, for Definitive Bearer Covered Bonds, against presentation and (in the case of final exchange) surrender of such Permanent Global Covered Bond at the specified office from time to time of the Principal Paying Agent (i) if either of Euroclear or Clearstream, Luxembourg or any other clearing system by which the Covered Bonds have been accepted for clearing is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to cease business permanently or does in fact do so or (ii) if an Issuer Event of Default occurs as set out in Condition 8 or (iii) if the Issuer or any Paying Agent, by reason of any change in, or amendment to, the laws of the United Kingdom, is or will be required to make any deduction or withholding from any payment under the Covered Bonds which would not be required if such Covered Bonds were in definitive form.

Definitive Bearer Covered Bonds will, if interest-bearing and if so specified in the relevant Final Terms, have interest coupons (“**Coupons**”) and, if applicable, a talon for further Coupons attached. All Definitive Bearer Covered Bonds will, if the principal thereof is repayable by instalments, have endorsed thereon a grid for recording the payment of principal.

Each Temporary Global Covered Bond and each Permanent Global Covered Bond will be delivered on or prior to the issue date for the relevant Series to Euroclear and/or Clearstream, Luxembourg (the “**International Central Securities Depositories**”), or an agent for the International Central Securities Depositories, as Common Safekeeper of the Covered Bonds.

An agent will act as common service provider (the “**Common Service Provider**”) in respect of such Covered Bonds.

Payments in respect of Bearer Covered Bonds

Following the NGN Implementation Date, each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Covered Bond (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the bearer of such Global Covered Bond and in relation to all other rights arising under the Global Covered Bond. The extent to which,

and the manner in which, Accountholders may exercise any rights arising under the Global Covered Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Covered Bonds are represented by the Global Covered Bond, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Covered Bonds and such obligations of the Issuer will be discharged by payment to the bearer of the Global Covered Bond. Each payment so made in respect of Covered Bonds when represented by a Permanent Global Covered Bond will discharge the Issuer's obligation in respect thereof and the Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of the relevant clearing systems and shall seek confirmation from the Common Service Provider that Euroclear and Clearstream, Luxembourg have made appropriate entries in their records.

The records of the relevant clearing systems which reflect the amount of Covered Bondholders' interests in the Covered Bonds shall be conclusive evidence of the nominal amount of Covered Bonds represented by the Global Covered Bonds.

If any date on which a payment of interest is due on the Covered Bonds of a Series issued in accordance with TEFRA D occurs while any of the Covered Bonds of that Series are represented by a Temporary Global Covered Bond, the relevant interest payment will be made on such Temporary Global Covered Bond only to the extent that certification has been received by Euroclear and/or Clearstream, Luxembourg as to the beneficial ownership thereof, as required by US Treasury Regulations, in accordance with the terms of such Temporary Global Covered Bond.

NOTICES

For so long as any Bearer Covered Bonds are represented by a Temporary Global Covered Bond or a Permanent Global Covered Bond, notices to holders of Bearer Covered Bonds may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication by them to entitled Accountholders in substitution for publication as required by the Conditions.

For so long as any Regulation S Global Registered Covered Bond or Unrestricted Global Registered Covered Bond is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Covered Bonds represented by a beneficial interest in such Global Registered Covered Bond may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg or, as the case may be, such Alternative Clearing System.

For so long as any Rule 144A Global Registered Covered Bond or Restricted Global Registered Covered Bond is held on behalf of DTCC or an Alternative Clearing System, notices to holders of Covered Bonds represented by a beneficial interest in such Global Registered Covered Bond may be given by delivery of the relevant notice to DTCC or, as the case may be, such Alternative Clearing System.

In addition, for so long as any Covered Bonds are listed on any stock exchange, notices will also be published as required by the rules and regulations of such stock exchange.

MEETINGS

The provisions for meetings of Holders of Covered Bonds scheduled to the Trust Deed provide that, where all the Covered Bonds of the relevant Series are held by one person, the quorum in respect of the relevant meeting will be one person present (being, in the case of an individual, present in person or, being, in the case of a corporation, present by a representative) holding all the outstanding Covered Bonds of the relevant Series or holding voting certificates or being a proxy in respect of such Covered Bonds.

PURCHASE AND CANCELLATION

Cancellation of any Covered Bond surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Temporary Global Covered Bond, Permanent Global Covered Bond or, as the case may be, Global Registered Covered Bond and, in the case of a Global Registered Covered Bond, will be recorded in the Register by the Registrar(s).

ISSUER'S OPTION TO REDEEM IN PART

No drawing of Bearer Covered Bonds or redemption *pro rata* of Registered Covered Bonds will be required under Condition 5(c) in the event that the Issuer exercises any option to redeem such

Covered Bonds in part while all such Covered Bonds which are outstanding are represented by a Temporary Global Covered Bond, Permanent Global Covered Bond or, as the case may be, Global Registered Covered Bond. In such event, the standard procedures of Euroclear, Clearstream, Luxembourg, DTCC or, as the case may be, the Alternative Clearing System shall operate to determine which interests in such Global Covered Bonds are to be subject to such option. In relation to Bearer Covered Bonds, such partial redemption is to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion.

EARLY REDEMPTION AT THE OPTION OF THE HOLDER – PROVISIONS RELATING TO REGISTERED COVERED BONDS HELD IN CLEARING SYSTEMS

Condition 5(d) allows for early redemption of Covered Bonds at the option of the Holder of such Covered Bonds if so specified in the relevant Final Terms. Such option is exercisable by the Holder of the relevant Covered Bonds by depositing such Covered Bonds, together with a notice of exercise of such option (an “**Option Notice**”), duly completed and signed in accordance with Condition 5(d), at the specified office of any Paying Agent (in the case of Bearer Covered Bonds, outside the United States). In respect of any Registered Covered Bonds of the relevant Series of which either HSBC Issuer Services Common Depositary Nominee (UK) Limited as common nominee for Euroclear and Clearstream, Luxembourg, or Cede & Co. as nominee for DTCC, as the case may be, is the registered Holder, such Option Notice will be deemed to have been duly completed and signed by the Holder of the relevant Covered Bonds if it has been completed and signed by or on behalf of a person in respect of whom notification has been given by Euroclear or Clearstream, Luxembourg or DTCC, as the case may be, to the relevant Registrar that such person is a person who is shown in the records of Euroclear or Clearstream, Luxembourg or DTCC, as the case may be, as having relevant Registered Covered Bonds of a specified principal amount standing to the credit of its account with Euroclear or Clearstream, Luxembourg or DTCC, as the case may be, or delivered from its account with Euroclear and Clearstream, Luxembourg or DTCC, as the case may be, for the purpose of exercising such option.

TRANSFER RESTRICTIONS

The Covered Bonds have not been, and will not be, registered under the Securities Act or the state securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, "US persons" (as defined in Regulation S under the Securities Act ("**Regulation S**")), except in reliance on Rule 144A under the Securities Act ("**Rule 144A**") to "qualified institutional buyers" (as defined in Rule 144A) ("**QIBs**") who are also "qualified purchasers" ("**Qualified Purchasers**") within the meaning of Section 2(a)(51) of the Investment Company Act. The Covered Bonds may also be offered and sold to non-US persons in offshore transactions in reliance on Regulation S.

Each holder and beneficial owner of the Covered Bonds offered hereby will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. It (A)(i) is a QIB that is also a Qualified Purchaser; (ii) is not (a) a broker-dealer that owns and invests on a discretionary basis less than US\$25 million in securities of unaffiliated issuers or (b) a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by the beneficiaries of such plan; (iii) is aware, and each beneficial owner of such Covered Bonds has been advised, that the sale to it is being made in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act; (iv) is acquiring such Covered Bonds for its own account or for the account of a QIB who is also a Qualified Purchaser; and (v) will hold and transfer such Covered Bonds in at least the minimum Authorized Denominations amounts specified in the Final Terms for such Covered Bonds; or (B) is not a US person and is purchasing such Covered Bonds in an offshore transaction pursuant to Regulation S. It understands that in the event that at any time the Issuer determines or is notified that it was in breach of any of the representations and agreements set forth in paragraphs (1) to (7) of this section "Transfer Restrictions", the Issuer may, by written notice to the Registrar and such holder, declare the acquisition of the related Covered Bonds or interest in the related Covered Bonds void in the event of a breach at the time given, and, in the event of such a determination or notice of a breach, at the time given or at any subsequent time, the Issuer may, by such notice, require that the related Covered Bonds or such interest be transferred to a person designated by the Issuer.
2. If it was formed prior to 30 April 1996, and is an investment company excepted from the Investment Company Act pursuant to Section 3(c)(1) or Section 3(c)(7) thereof, then its treatment as a Qualified Purchaser has been consented to (in the manner required by Section 2(a)(51)(C) of the Investment Company Act and rules thereunder) by its beneficial owners who acquired their interests on or before 30 April 1996.
3. It understands that the Issuer may receive a list of participants holding positions in the Covered Bonds from one or more book-entry depositaries, including Euroclear and Clearstream, Luxembourg, and those participants may further disclose to the Issuer the names and positions of the holders of the Covered Bonds.
4. It understands that the Covered Bonds are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and that the Covered Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred:
 - (a) within the United States except to a transferee:
 - (i) (A) pursuant to a registration statement that has been declared effective under the Securities Act; (B) that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB, in reliance on Rule 144A; (C) pursuant to Rule 144 under the Securities Act (if available); or (D) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States; and
 - (ii) that is a Qualified Purchaser; or

(b) outside the United States:

(i) during the period ending 40 days after the completion of the distribution of the Series of Covered Bonds of which such Covered Bonds are a part (as determined and certified by the relevant Dealer(s) in the case of a non-syndicated issue or the relevant lead manager, in the case of a syndicated issue) (the "Distribution Compliance Period") to a non-US person in an offshore transaction in accordance with Regulation S; and

(ii) thereafter in an offshore transaction in accordance with Regulation S

5. Each Series of Covered Bonds will bear a legend substantially to the following effect unless the Issuer determines otherwise in accordance with applicable law:

"THIS COVERED BOND (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS COVERED BOND IS HEREBY NOTIFIED THAT THE SELLER OF THIS COVERED BOND MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS COVERED BOND AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS COVERED BOND MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (i) TO A QUALIFIED INSTITUTIONAL BUYER IN ACCORDANCE WITH RULE 144A OF THE SECURITIES ACT THAT IS ALSO A QUALIFIED PURCHASER (A "QUALIFIED PURCHASER") AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THAT IS NOT (1) A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS OR (2) A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN, IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF SUCH PLAN; OR (ii) TO A NON-US PERSON IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY JURISDICTION AND IN A MINIMUM PRINCIPAL AMOUNT OF €50,000 IN THE CASE OF COVERED BONDS TRANSFERRED OUTSIDE THE US IN RELIANCE ON REGULATION S AND A MINIMUM PRINCIPAL AMOUNT OF \$100,000 (OR THE EQUIVALENT IN ANOTHER CURRENCY) IN THE CASE OF COVERED BONDS TRANSFERRED TO PERSONS IN THE US. AND IN EACH CASE IN COMPLIANCE WITH THE CERTIFICATION AND OTHER REQUIREMENTS SPECIFIED IN THE TRUST DEED REFERRED TO HEREIN, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS COVERED BOND FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN CLAUSE (A) ABOVE.

ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE REGISTRAR OR ANY INTERMEDIARY. IF AT ANY TIME, THE ISSUER DETERMINES OR IS NOTIFIED THAT THE HOLDER OF THIS COVERED BOND OR A BENEFICIAL INTEREST HEREIN WAS IN BREACH OF ANY OF THE REPRESENTATIONS SET FORTH IN THE INDENTURE, THE ISSUER OR THE REGISTRAR MAY DECLARE THE ACQUISITION OF THIS COVERED BOND OR SUCH INTEREST IN THIS COVERED BOND VOID, IN THE EVENT OF A BREACH AT THE TIME GIVEN, AND, IN THE EVENT OF SUCH A DETERMINATION OR NOTICE OF A BREACH, AT THE TIME GIVEN OR AT ANY

SUBSEQUENT TIME, THE ISSUER OR THE REGISTRAR MAY REQUIRE THAT THIS COVERED BOND OR SUCH INTEREST HEREIN BE TRANSFERRED TO A PERSON DESIGNATED BY THE ISSUER.

THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN THE COVERED BONDS FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES, INCLUDING EUROCLEAR AND CLEARSTREAM, LUXEMBOURG, AND THOSE PARTICIPANTS MAY FURTHER DISCLOSE TO THE ISSUER THE NAMES AND POSITIONS OF HOLDERS OF THE COVERED BONDS.

EACH BENEFICIAL OWNER OF THIS COVERED BOND WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS AND AGREEMENTS SET FORTH IN SCHEDULE 6 OF THE TRUST DEED.

IN ADDITION, AS SET FORTH IN THE APPLICABLE FINAL TERMS AND RELATED SUPPLEMENTARY TRUST DEED A SERIES OF COVERED BONDS MAY ALSO BEAR SUCH ADDITIONAL LEGENDS AS SET FORTH THEREIN.”

6. It will not, at any time, offer to buy or offer to sell the Covered Bonds by any directed selling efforts or by any form of general solicitation or advertising, including, but not limited to, any advertisement, article, notice of other communication published in any newspaper, magazine or similar medium or broadcast over television or radio or seminar or meeting whose attendees have been invited by general solicitations or advertisements.
7. if it is a US person, (A) it has purchased the Covered Bonds in the ordinary course of its investment business, for a *bona fide* business purpose and not with a view to further distribute such Covered Bonds; and (B) it has not been formed for the purpose of investing in the Issuer.

CLEARING AND SETTLEMENT

Custodial and safekeeping links have been established with Euroclear, Clearstream, Luxembourg and DTCC to facilitate the initial issuance of Covered Bonds and cross-market transfers of Covered Bonds between investors associated with secondary market trading. Transfers within Euroclear, Clearstream, Luxembourg and DTCC will be in accordance with the usual rules and operating procedures of the relevant system.

EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

Euroclear and Clearstream, Luxembourg (or an agent on their behalf) each holds securities as common safekeeper for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal and interest with respect to book-entry interests in the Covered Bonds held through Euroclear and Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTCC

DTCC is a limited-purpose trust company organised under the laws of the State of New York and a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTCC holds securities for DTCC participants and facilitates the clearance and settlement of securities transactions between DTCC participants through electronic book-entry changes in accounts of DTCC participants. DTCC participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organisations. Indirect access to DTCC is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a DTCC participant, either directly or indirectly.

Holders of book-entry interests in the Covered Bonds holding through DTCC will receive, to the extent received by the Principal Paying Agent, all distributions of principal and interest with respect to book-entry interests in the Covered Bonds from the Principal Paying Agent through DTCC. Distributions in the United States will be subject to relevant US tax laws and regulations.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Registered Covered Bond to such persons may be limited. Because DTCC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Registered Covered Bond to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The aggregate holdings of book-entry interests in the Covered Bonds in Euroclear, Clearstream, Luxembourg and DTCC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar(s) will adjust the amounts of Covered Bonds on the Register for the accounts of (i) Euroclear and Clearstream, Luxembourg and (ii) DTCC to reflect the amounts of Covered Bonds held through Euroclear and Clearstream, Luxembourg and DTCC, respectively. Beneficial ownership in Covered Bonds will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTCC. Euroclear, Clearstream, Luxembourg or DTCC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Covered Bonds will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests

in the Covered Bonds. The Registrar(s) will be responsible for maintaining a record of the aggregate holdings of Covered Bonds registered in the name of a common nominee Euroclear and Clearstream, Luxembourg, a nominee for DTCC and/or Holders of Covered Bonds represented by Definitive Registered Covered Bonds. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for Holders of interests in the Covered Bonds holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear and Clearstream, Luxembourg, as the case may be, and the Principal Paying Agent will also be responsible for ensuring that payments received by the Principal Paying Agent from the Issuer for Holders of interests in the Covered Bonds holding through DTCC are credited to DTCC.

The Issuer will not impose any fees in respect of the Covered Bonds; however, Holders of book-entry interests in the Covered Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTCC.

Interests in an Unrestricted Global Registered Covered Bond and a Restricted Global Registered Covered Bond will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Covered Bonds through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Global Registered Covered Bonds will be credited to Euroclear participants' securities clearance accounts on the business day following the relevant issue date against payment (value such issue date), and to Clearstream, Luxembourg participants' securities custody accounts on the relevant issue date against payment in same day funds. DTCC participants acting on behalf of purchasers electing to hold book-entry interests in the Covered Bonds through DTCC will follow the delivery practices applicable to securities eligible for DTCC's Same-Day Funds Settlement ("SDFS") system. DTCC participant securities accounts will be credited with book-entry interests in the Covered Bonds following confirmation of receipt of payment to the Issuer on the relevant issue date.

SECONDARY MARKET TRADING IN RELATION TO GLOBAL REGISTERED COVERED BONDS

Trading between Euroclear and/or Clearstream, Luxembourg participants: Secondary market sales of book-entry interests in the Covered Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Covered Bonds through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTCC participants: Secondary market sales of book-entry interests in the Covered Bonds between DTCC participants will occur in the ordinary way in accordance with DTCC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTCC's SDFS system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTCC are required to be made between the DTCC participants.

Trading between DTCC seller and Euroclear/Clearstream, Luxembourg purchaser: When book-entry interests in Covered Bonds are to be transferred from the account of a DTCC participant holding a beneficial interest in a Restricted Global Registered Covered Bond to the account of a Euroclear or Clearstream, Luxembourg account holder wishing to purchase a beneficial interest in an Unrestricted Global Registered Covered Bond (subject to the certification procedures provided in the Agency Agreement), the DTCC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg account holder to DTCC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTCC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the DTCC Custodian will instruct the relevant Registrar to (i) decrease the amount of Covered Bonds registered in the name of Cede & Co. and evidenced by the Restricted Global Registered Covered Bond and (ii) increase the amount of Covered Bonds registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Registered Covered Bond. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant account holder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTCC purchaser: When book-entry interests in the Covered Bonds are to be transferred from the account of a Euroclear or Clearstream, Luxembourg account holder to the account of a DTCC participant wishing to purchase a beneficial interest in the Restricted Global Registered Covered Bond (subject to the certification procedures

provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the relevant Registrar to arrange delivery to the DTCC participant on the settlement date. Separate payment arrangements are required to be made between the DTCC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the DTCC Custodian who will in turn deliver such book-entry interests in the Covered Bonds free of payment to the relevant account of the DTCC participant and (b) instruct the relevant Registrar to (i) decrease the amount of Covered Bonds registered in the name of the common nominee Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Registered Covered Bond and (ii) increase the amount of Covered Bonds registered in the name of Cede & Co. and evidenced by the Restricted Global Registered Covered Bond.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTCC in order to facilitate the transfers of interests in the Covered Bonds among participants of DTCC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTCC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee, the Principal Paying Agent, the Registrar, any Paying Agent, any Transfer Agent, any Dealer or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTCC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

The Dealers have, either in a programme agreement (as such programme agreement is incorporated by reference into a subscription agreement to be entered into by each Dealer for each issue of Covered Bonds subscribed pursuant to a subscription agreement (each a “**Subscription Agreement**”) and as the same may be amended and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated the Programme Establishment Date and as amended and restated on the Programme Establishment Date, or in a dealer accession letter to the Covered Bond Programme which incorporates the duties and obligations assumed by Dealers under the Programme Agreement, agreed between the Arranger, the Issuer and the LLP a basis upon which such Dealers or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under “*Form of the Covered Bonds and Terms and Conditions of the Covered Bonds*”. In the Programme Agreement, the Issuer has agreed to reimburse the Arranger for certain of its expenses in connection with the establishment and the Arranger and the Dealers for certain of their expenses (as agreed in writing at the time) in connection with any future update of the Covered Bond Programme and the issue of Covered Bonds under the Covered Bond Programme and to indemnify the Arranger and the Dealers against certain liabilities incurred by them in connection therewith.

UNITED STATES

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act or the state securities laws of any State of the United States or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and in circumstances which will not require the Issuer to register under the Investment Company Act.

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

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“**Regulation S Covered Bonds**”), each Dealer has represented and agreed, and each further Dealer appointed under the Covered Bond Programme will be required to represent and agree, that it will not offer, sell or deliver Regulation S Covered Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of the Series of Covered Bonds of which such Covered Bonds are a part (as determined and certified by the relevant Dealer(s) in the case of a non-syndicated issue or the relevant lead manager, in the case of a syndicated issue) and except in either case in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Covered Bond Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the Distribution Compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the later of the commencement of the offering of any Series of Covered Bonds and the Issue Date with respect thereto, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Inflation-Linked Covered Bonds or Dual Currency Covered Bonds shall be subject to such additional US selling restrictions as the Issuer and the relevant Dealer(s) may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms.

UNITED KINGDOM

Each Dealer appointed under the Covered Bond Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the LLP or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer appointed under the Covered Bond Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Covered Bonds to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Covered Bonds to the public in that Relevant Member State:

- (i) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Covered Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (ii) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (iii) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- (iv) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Covered Bonds to the public**” in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

THE REPUBLIC OF ITALY

The offering of the Covered Bonds has not been cleared by the *Commissione Nazionale per la Società e la Borsa* (“**CONSOB**”), (the Italian Securities Exchange Commission), pursuant to Italian securities legislation and, accordingly, the Covered Bonds may be offered, sold or delivered in Italy only to professional investors (“*operatori qualificati*”), as defined in Articles 25 and 31(2) of CONSOB Regulation No. 11522 of 1 July, 1998 (“**Regulation 11522**”), as amended, pursuant to Articles 30(2) and 100 of Legislative Decree No. 58 of 24 February 1998 (“**Decree No. 58**”) except for individuals referred to in Article 31(2) of Regulation 11522 who exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a “*società di intermediazione mobiliare*”, or SIM), management companies (“*società di gestione del risparmio*”) authorised to manage individuals portfolios on behalf of third parties and fiduciary companies authorised to manage individual portfolios pursuant to Article 60(4) of Legislative Decree no. 415 of 23 July 1996 (“**Professional Investors**”).

Each prospective purchaser will be asked to represent and agree that it will not offer, sell or deliver the Covered Bonds or distribute copies of this Base Prospectus or any other document relating to the

Covered Bonds in the Republic of Italy unless such offer, sale or delivery of Covered Bonds relating to the Covered Bonds in the Republic of Italy is:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September, 1993 (the “**Banking Act**”), Decree No. 58, Regulation 11522 and any other applicable laws and regulations;
- (ii) in compliance with article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy unless an exemption, depending, *inter alia*, on the aggregate value of the Covered Bonds issued or offered in the Republic of Italy and their characteristics applies; and
- (iii) in compliance with any and all other applicable laws and regulations, including any notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy, and, in any event, provided that any Professional Investor purchasing the Covered Bonds undertakes not to further distribute or transfer the Covered Bonds, except in accordance with any applicable laws and regulations, including any requirements or limitations imposed by CONSOB or the Bank of Italy.

GENERAL

Each Dealer appointed under the Covered Bond Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the LLP Security Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the LLP, the Bond Trustee, the LLP Security Trustee or any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Additionally, with regard to each Series, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

GENERAL INFORMATION

AUTHORISATION

The establishment of the Covered Bond Programme and the issue of Covered Bonds have been duly authorised by a resolution of a committee of the board of directors of the Issuer dated 5 October 2006 and the giving of the Covered Bond Guarantee has been duly authorised by a resolution of the Management Committee of the LLP dated 1 November 2006.

LISTING OF COVERED BONDS ON THE LONDON STOCK EXCHANGE

Application has been made to the UK Listing Authority in its capacity as competent authority for the purposes of Part VI of FSMA and to the gilt edged and fixed interest market of the London Stock Exchange plc. The gilt edged and fixed interest market of the Regulated Market of the London Stock Exchange. Application has been made for the Covered Bonds issued under the Covered Bond Programme during the period of 12 months from the date of the base prospectus to be admitted to trading on the Regulated Market of the London Stock Exchange.

The listing of the Covered Bonds on the London Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Series of Covered Bonds which is to be listed on the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Covered Bond or Covered Bonds initially representing the Covered Bonds of such Series.

DOCUMENTS AVAILABLE

So long as Covered Bonds are capable of being issued under the Covered Bond Programme, copies of the following documents will, when published, be available (other than in respect of item (a)) free of charge and (in respect of item (i)) will be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London and/or the Paying Agent and from the internet site of the London Stock Exchange, at www.londonstockexchange.com/engb/pricesnews/marketnews/:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;
- (ii) the consolidated audited financial statements of the Issuer in respect of the financial periods ended 31 December 2004 and 2005. The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis. The LLP will prepare prepares audited non-consolidated accounts on an annual basis;
- (iii) the most recently published audited annual financial statements of the Issuer and the LLP and the most recently published unaudited interim financial statements (if any) of the Issuer. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a semi-annual basis;
- (iv) the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Base Prospectus;
- (vi) any future base prospectus, prospectuses, information memoranda and supplements including Final Terms (including a Final Terms relating to an unlisted Covered Bond) to this Base Prospectus and any other documents incorporated herein or therein by reference;
- (vii) the most recent copy of the Investor Report prepared by the LLP Cash Manager on a monthly basis including, *inter alia*, information on compliance with the Covered Bond Coverage Tests.

CLEARING SYSTEMS

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Series of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

CONDITIONS FOR DETERMINING PRICE

The price and amount of Covered Bonds to be issued under the Covered Bond Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

SIGNIFICANT OR MATERIAL CHANGE

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole, since 30 June 2006 or the financial or trading position of the LLP since incorporation thereof, and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries, taken as a whole, since 31 December 2005 or of the LLP since incorporation thereof.

LITIGATION

Neither the Issuer and its subsidiaries, taken as a whole, nor the LLP is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the LLP is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position and profitability of the Issuer and its subsidiaries, taken as a whole, or the LLP.

AUDITORS

The auditors of the Issuer are KPMG Audit plc, chartered accountants with the Institute of Chartered Accountants in England and Wales and registered auditors, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 December 2004 and 31 December 2005.

The auditors of the LLP are KPMG Audit plc, chartered accountants with the Institute of Chartered Accountants in England and Wales and registered auditors.

REPORTS

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document to be entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

FORM OF FINAL TERMS

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

[Date]

HSBC BANK PLC

(incorporated with limited liability in England and Wales)

Issue of [Aggregate Nominal Amount of Tranche] of Series [●] [Title of Covered Bonds]

guaranteed as to payments of interest and principal by

HSBC Mortgage Limited Liability Partnership

(a limited liability partnership incorporated in England and Wales)

under the €15 billion Covered Bond Programme

Part A – Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 1 November 2006, which constitutes a base prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered office of the Issuer and at the London office of the Principal Paying Agent.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|----|--|---|
| 1. | (a) Issuer: | HSBC Bank plc |
| | (b) Guarantor: | HSBC Mortgage Limited Liability Partnership |
| 2. | (a) Series Number: | [●] |
| 3. | Specified Currency or Currencies: | [●] |
| 4. | Aggregate Nominal Amount: | |
| | (a) [Series: | [●] |
| 5. | Issue Price: | [●] per cent of the Aggregate Nominal Amount
[plus accrued interest from [insert date] (in the case
of fungible issues only, if applicable)] |
| 6. | Specified Denominations ¹ : | [●] [N.B. The minimum denomination of each
Covered Bond admitted to trading on a regulated
exchange in the European Economic Area or
offered to the public in a Member State of the
European Economic Area in circumstances which
would otherwise require the publication of a
prospectus under the Prospectus Directive will be
€50,000 (or, if the Covered Bonds are denominated |

¹ If Covered Bonds are offered or sold in The Netherlands with a denomination of less than Euro 50,000 (or its foreign currency equivalent) then they may only be offered or sold as a block or package having an aggregate value of at least Euro 50,000 (or its foreign currency equivalent) and a selling restriction to this effect should be included in the Final Terms or offered or sold to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) and selling restrictions to this effect should be included in the Final Terms.

in a currency other than Euro, the equivalent amount in such currency) or such other higher amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. If an issue of Covered Bonds is (i) NOT admitted to trading on a regulated exchange in the European Economic Area; and (ii) only offered to qualified investors and/or fewer than 100 natural or legal persons per Member State of the European Economic Area other than qualified investors or otherwise complies with the European Economic Area selling restrictions in the section entitled Subscription and Sale in the Base Prospectus, then the minimum denomination of €50,000 does not apply].

7. (a) Issue Date: [●]
 (b) Interest Commencement Date: [●]
8. Final Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [●]]
9. Extended Final Maturity Date of Guaranteed Amounts corresponding to Final Redemption Amount under the Covered Bond Guarantee: [Fixed rate – specify date/ Floating rate – Interest Payment Date falling in or nearest to [specify month]; in each case falling one year after the Final Maturity Date] [N/A if a Hard Bullet Covered Bond]
10. Interest Basis: [[●] per cent Fixed Rate]
 [[LIBOR/EURIBOR] +/- [●] per cent Floating Rate]
 [Zero Coupon]
 [Inflation-Linked Interest]
 [Dual Currency Interest]
 [specify other]
 [(further particulars specified below)]
11. Redemption/Payment Basis: [Redemption at par]
 [Inflation-Linked Redemption]
 [Dual Currency Redemption]
 [Instalment]
 [Partly Paid]
 [Hard Bullet]
 [specify other]
12. Change of Interest Basis or Redemption/ Payment Basis: [Specify details of any provision for change of Covered Bonds into another Interest Basis or Redemption/Payment Basis]
13. Put/Call Option: [Investor Put/Issuer Call]
 [(further particulars specified below)]
14. (a) Status of the Covered Bonds: Senior
 (b) Status of the Guarantee: Senior

- (c) [Date [Board] approval for issuance of Covered Bonds and Guarantees obtained:] [N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Covered Bonds or related Guarantees]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE²

16. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [●] per cent per annum [payable [annually/semi-annually /quarterly] in arrear]
(If payable other than annually, consider amending Condition 3)
- (b) Interest Payment Date(s): [[●] in each year up to and including the Final Maturity Date or the Extended Final Maturity Date, if applicable]/[specify other] subject to amendment in accordance with the Business Day Convention/not adjusted]
(NB: This will need to be amended in the case of long or short coupons)
- (c) Fixed Coupon Amount(s): [●] per [●] in nominal amount
- (d) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (f) Determination Date(s): [●] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: [None/Give details]
17. Floating Rate Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Date(s): [●]
NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Final Maturity Date, if applicable
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): [●]

² This section relates to interest payable under the Covered Bonds, including under the Covered Bond Guarantee.

- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/ specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (f) Screen Rate Determination:
- Reference Rate: [●]
(Either LIBOR, EURIBOR or other, although additional information is required if other-including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): [●]
(Second London Business Day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR) NB: Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable
 - Relevant Screen Page: [●]
(In the case of EURIBOR, if not Reuters page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fall back provisions appropriately) [+LIBOR Reuters page LIBOR 01]
- (g) ISDA Determination: Floating Rate Option: [●]
- Designated Maturity: [●]
 - Reset Date: [●]
- (h) Margin(s): [+/-] [●] per cent per annum
- (i) Minimum Rate of Interest: [●] per cent per annum
- (j) Maximum Rate of Interest: [●] per cent per annum
- (k) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
Actual / Actual (ICMA)
Actual / Actual (ISDA)
Other]
(See Condition 3 for alternatives)
- (l) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Conditions: [●]

18. Zero Coupon Covered Bond Provisions³ [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: per cent per annum
 - (b) Reference Price:
 - (c) Any other formula/basis of determining amount payable:
 - (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 5(f)(iii) and (k) apply/specify other]

(Consider applicable day count fraction if not US dollar denominated)
19. Inflation-Linked Interest Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Index/Formula/other variable: [give or annex details]
 - (b) Calculation Agent responsible for calculating the principal and/or interest due:
 - (c) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:
 - (d) Interest Determination Date:
 - (e) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [include description of market disruption or settlement disruption events and adjustment provisions, if appropriate]
 - (f) Specified Period(s)/Specified Interest Payment Dates:
 - (g) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
 - (h) Additional Business Centre(s):
 - (i) Minimum Rate / Amount of Interest: per cent per annum
 - (j) Maximum Rate / Amount of Interest: per cent per annum
 - (k) Day Count Fraction:
20. Dual Currency Interest Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (b) Calculation Agent, if any, responsible for calculating the principal / interest payable:

³ Zero Coupon Covered Bonds not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers and the Bond Trustee.

- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●] [include description of market disruption or settlement disruption events and adjustment provisions, if appropriate]
- (d) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

- 21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Optional Redemption Date(s): [●]
 - (b) Optional Redemption Amount/Net Present Value of each Covered Bond and method, if any, of calculation of such amount(s)/values: (NB Optional Redemption Dates must be Interest Payment Dates unless otherwise agreed with the Dealers and the Bond Trustee)
[●] per Covered Bond of [●] specified denomination
 - (c) If redeemable in part:
 - (i) Minimum Redemption Amount: [●]
 - (ii) Maximum Redemption Amount: [●]
 - (d) Notice period (if other than as set out in the Conditions): [●]

(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)
- 22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Optional Redemption Date(s): [●]
 - (b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): [●] per Covered Bond of [●] specified denomination [●]
 - (c) Notice period (if other than as set out in the Conditions): [●]

(NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)

23. Final Redemption Amount of each Covered Bond: [Nominal Amount/ specify other/see Appendix]
24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons, on acceleration following an Issuer Event of Default or an LLP Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 5(f)): [●]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

25. Form of Covered Bonds: [Bearer/Registered]
 [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Covered Bonds in definitive form [upon the occurrence of an Exchange Event/upon 60 days' notice]]
 [Temporary Global Covered Bond exchangeable for Covered Bonds in definitive form]
 [Permanent Global Covered Bond exchangeable on or after the Exchange Date for Covered Bonds in definitive form upon the occurrence of an Exchange Event/]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
 (Note that this item relates to the place of payment and not Interest Period end dates to which items 18(c) and 20(f) relate)
27. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Covered Bond and/or Permanent Global Covered Bond may be required for Partly Paid issues]
29. Details relating to Instalment Covered Bonds:
 (a) Instalment Amount(s): [Not Applicable/give details]
 (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable
 (If Redenomination is applicable, specify the terms of the redenomination in an annex to the Final Terms)
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. Securities Act [Regulation S/Rule 144A]
33. (a) If syndicated, names of Managers: [Not Applicable/give names]

34. (b) Stabilising Manager (if any): [Not Applicable/give name]
35. If non-syndicated, name of relevant Dealer(s): [●]
36. Whether TEFRA D rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA not applicable]
37. Additional selling restrictions: [Not Applicable/give details]
38. ERISA eligibility (if Covered Bonds are to be offered pursuant to Rule 144A): [Not Applicable/give details]

LISTING AND ADMISSION TO TRADING APPLICATION

This Final Terms comprises the final details required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the €15 billion Covered Bond Programme of HSBC Bank plc.

RESPONSIBILITY

Each of the Issuer and the LLP accepts responsibility for the information contained in this Final Terms. [●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (a) Listing: [[●] / other (specify)/None]
- (b) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [●] with effect from [●].] [Not Applicable.]
- (c) Estimate of total expenses related to admission to trading: [●]

2. RATINGS

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

3. [NOTIFICATION]

The *Commission de Surveillance du Secteur Financier* [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Covered Bond Programme and the second alternative for subsequent issues] the [names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Dealers, so far as the Issuer and the LLP are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. – Amend as appropriate if there are other interests]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer:

[(ii) Estimated net proceeds:

[(iii) Estimated total expenses: [N.B.: If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.]

6. YIELD (Fixed Rate Covered Bonds only)

Indication of yield:

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. **PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Inflation-Linked Covered Bonds/other variable linked Covered Bonds only)**

[Need to include details of where information about the past and future performance and volatility of the index/formula can be obtained.]

[Need to include a description of any market disruption or settlement disruption events that affect the underlying.]

[Need to include adjustment rules in relation to events covering the underlying.]

[Where the underlying is a security the name of the issuer of the security and its ISIN or other such security identification code.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

Where the underlying is not an index need to include equivalent information.]

[Where the underlying is an interest rate a description of the interest rate.]

[Where the underlying is a basket of underlyings disclosure of the relevant weightings of each underlying in the basket.]

8. **PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Covered Bonds Only)**

[Need to include details of where information about the past and future performance and volatility of the relevant rates can be obtained.]

9. OPERATIONAL INFORMATION

(a) ISIN Code:

(b) Common Code:

(c) Any clearing system(s) other than Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(d) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

[Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected in which case the Covered Bonds must be issued in NGN form]

(e) Bearer Global Covered Bonds in New Global Note form: Yes

(f) Delivery: Delivery [against/free of] payment

(g) Names and addresses of additional Paying Agent(s) (if any): [●]

Signed on behalf of the Issuer: Signed on behalf of the LLP:

By: By:

Duly authorised Duly authorised

If the applicable Final Terms specifies any modification to the Terms and Conditions of the Covered Bonds as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 3, 4, 5 (except Condition 5(b)), 9, 10, 11, 12 (insofar as such Covered Bonds are not listed or admitted to trade on any stock exchange) or 15, they will not necessitate the preparation of a supplement to this Base Prospectus. If the Terms and Conditions of the Covered Bonds of any Series are to be modified in any other respect, a supplement to this Base Prospectus will be prepared, if appropriate.

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