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This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Sandown Gold 2011-1 plc nor Lloyds TSB Bank plc nor any lead manager nor any person who controls any of them, nor any director, officer, employee or agent of Sandown Gold 2011-1 plc or Lloyds TSB Bank plc or any lead manager nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Sandown Gold 2011-1 plc or Lloyds TSB Bank plc or any lead manager.

**SANDOWN GOLD 2011-1 PLC**

*(incorporated in England and Wales with limited liability with registered number 7451665)*

**£428,000,000 Class A1 Asset Backed Notes due 2038**  
**€310,624,000 Class A2 Asset Backed Notes due 2038**  
**£100,000,000 Class B Asset Backed Notes due 2038**  
**£110,000,000 Class C Asset Backed Notes due 2038**  
**£120,000,000 Class D Potential Set-Off Notes due 2038**  
**£236,478,000 Class S Asset Backed Notes due 2038**

On or about 27 July 2011 (or such other date as Sandown Gold 2011-1 plc (the "**Issuer**") and Lloyds TSB Bank plc (the "**Offeror**") agree (the "**Issue Date**")), the Issuer will issue the £428,000,000 Class A1 Asset Backed Notes due 2038 (the "**Class A1 Notes**"), the €310,624,000 Class A2 Notes due 2038 (the "**Class A2 Notes**"), the £100,000,000 Class B Asset Backed Notes due 2038 (the "**Class B Notes**"), the £110,000,000 Class C Asset Backed Notes due 2038 (the "**Class C Notes**" and, together with the Class A1 Notes, the Class A2 Notes and the Class B Notes, the "**Rated Notes**"), the £120,000,000 Class D Potential Set-Off Notes due 2038 (the "**Class D Notes**") and the £236,478,000 Class S Asset Backed Notes due 2038 (the "**Class S Notes**" and, together with the Rated Notes and the Class D Notes, the "**Notes**"). It is a condition to the issue of: (a) the Class A1 Notes that they be assigned a rating of Aaa(sf) by Moody's Investors Service Limited ("**Moody's**") and a rating of AAA(sf) by Fitch Ratings Limited ("**Fitch**") and, together with Moody's, the "**Rating Agencies**"; (b) the Class A2 Notes that they be assigned a rating of Aaa(sf) by Moody's and a rating of AAA(sf) by Fitch; (c) the Class B Notes that they be assigned a rating of Aa2 by Moody's; and (d) the Class C Notes that they be assigned a rating of Baa2 by Moody's. The Class D Notes and the Class S Notes will not be rated. 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 by the Rating Agencies.

The Notes will be direct and limited recourse obligations solely of the Issuer secured over certain of the assets of the Issuer.

**CHARGED ASSETS OF THE ISSUER (AS DEFINED BELOW) ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN, OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, ANY OF THE OFFEROR, THE NOTE TRUSTEE, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR, EACH AGENT OR THE ARRANGER, THE LEAD MANAGER, (EACH SUCH PARTY AS DEFINED HEREIN), OR ANY OF THEIR RESPECTIVE AFFILIATES.**

**FOR A DISCUSSION OF CERTAIN RISK FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES, SEE "RISK FACTORS".**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States and may not be offered or sold within the United States, or to, or for the account or benefit of U.S. Persons (as such term is defined in Regulation S under the Securities Act ("**Regulation S**")) ("**U.S. Persons**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the Investment Company Act. The Issuer has not been and will not be registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). Accordingly, the Notes are being offered hereby outside the United States to persons who are neither U.S. Persons nor U.S. residents (within the meaning of the Investment Company Act) in offshore transactions in reliance on Regulation S. The Notes are subject to certain restrictions on their offering, transferability and resale as set forth in "*Subscription and Sale*".

<b>Notes</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Issue Price</b>	<b>Final Maturity Date</b>	<b>Credit Enhancement</b>
A1	£428,000,000	3 month LIBOR + 1.70%	100%	Note Payment Date falling in December 2038	Class B Notes, Class C Notes, Class D Notes, Class S Notes
A2	€310,624,000	3 month EURIBOR +1.60%	100%	Note Payment Date falling in December 2038	Class B Notes, Class C Notes, Class D Notes, Class S Notes,
B	£100,000,000	3 month LIBOR + 1.80%	100%	Note Payment Date falling in December 2038	Class C Notes, Class D Notes, Class S Notes
C	£110,000,000	3 month LIBOR + 1.80%	100%	Note Payment Date falling in	Class D Notes, Class S Notes

<b>Notes</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Issue Price</b>	<b>Final Maturity Date</b>	<b>Credit Enhancement</b>
				December 2038	
D	£120,000,000	N/A	100%	Note Payment Date falling in December 2038	Class S Notes
S	£236,478,000	Variable interest amount	100%	Note Payment Date falling in December 2038	N/A

For information about early redemption of the Notes prior to the Final Maturity Date, please refer to Condition 7 (*Redemption, Purchase and Cancellation*).

It is expected that the Rated Notes will each be represented on issue by a global note in registered form (the "**Global Notes**" and each a "**Global Note**"). Each Class A2 Note represented by a Global Note will be held under a new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**") and will be registered in the name of a nominee of a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking *société anonyme* ("**Clearstream, Luxembourg**") on or before the Issue Date. The Common Safekeeper will hold the Global Notes relating to the Class A2 Notes in custody for Euroclear and Clearstream, Luxembourg. The Class A1 Notes, the Class B Notes and the Class C Notes, each represented by a Global Note, will be deposited with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of the Common Depositary. Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes ("**Book Entry Interests**"). Book Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by Euroclear or Clearstream, Luxembourg, and their respective participants. Except in the circumstances described under "*Summary of Provisions relating to Notes in Global Form - Issuance of Individual Note Certificates*", the Rated Notes will not be available in definitive registered form. Individual Note Certificates will be issued in registered form only. The Class D Notes will be issued in definitive registered form (the "**Class D Individual Note Certificate**") and the Class S Notes will be issued in definitive registered form (the "**Class S Individual Note Certificate**").

The Class A2 Notes are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper but does not mean that such Notes 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.

The Class A1 Notes have been rated Aaa(sf) by Moody's and AAA(sf) by Fitch, the Class A2 Notes have been rated Aaa(sf) by Moody's and AAA(sf) by Fitch, the Class B Notes have been rated Aa2(sf) by Moody's and the Class C Notes have been rated Baa2(sf) by Moody's. Each of Moody's Investors Service Limited and Fitch Ratings Limited are established in the European Union and have submitted an application for registration in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies and, as at the date of this Prospectus, such applications for registration have not been refused.

Pursuant to Article 122(a) of Directive 2006/48/EC (as amended by Directive 2009/111/EC) referred to as the Capital Requirements Directive ("**CRD**"), the Offeror shall be required to retain at least 5% of net economic interest. Article 122(a) of the CRD became applicable as of 1 January 2011. As at the Issue Date, Lloyds TSB Bank plc (in its capacity as Offeror) shall comply with such regulation by retaining an interest in no less than 5% of the Principal Amount Outstanding of each Class of Notes, in accordance with option (a) of Article 122(a) of the CRD.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Directive (as defined below). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Rated Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a "regulated market" for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**"). There can be no assurance that any such listing will be obtained or, if obtained, maintained.

This Prospectus, as approved by the Central Bank, will be filed as required by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

This prospectus constitutes a "**Prospectus**" for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**").

**Arranger  
LLOYDS TSB BANK PLC**

**Lead Manager  
LLOYDS TSB BANK PLC**

**This Prospectus is dated 22 July 2011**

## IMPORTANT INFORMATION

The Issuer accepts responsibility for the information contained in this Prospectus (save for the information contained in the sections of this Prospectus headed "*Regulatory Disclosure*", "*The Offeror, the Issuer Account Bank, the Cash Administrator, the Collateral Administrator, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Interest Rate Swap Counterparty and the Currency Swap Counterparty*", "*The Agent Bank, The Note Trustee and The Principal Paying Agent*", "*Collateral Portfolio*" and "*Loan Underwriting and Servicing*"). To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. Neither the Arranger nor the Lead Manager accepts responsibility for the accuracy, adequacy, reasonableness or completeness of the information contained herein. The delivery of this Prospectus at any time does not imply that the information herein is correct at any time subsequent to the date of this Prospectus.

Each of the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Agent Bank, the Note Trustee and the Principal Paying Agent accepts responsibility for the information contained in this prospectus relating to itself in the sections headed "*The Offeror, the Issuer Account Bank, the Cash Administrator, the Collateral Administrator, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Interest Rate Swap Counterparty and the Currency Swap Counterparty*", "*The Agent Bank, The Note Trustee, The Principal Paying Agent and The Registrar*", as applicable. To the best of the knowledge of each such party, which has taken all reasonable care to ensure such is the case, the relevant information is in accordance with the facts and does not omit anything likely to affect the import of such information. In addition, the Offeror accepts responsibility for the information contained in the sections of this Prospectus headed "*Regulatory Disclosure*", "*Collateral Portfolio*" and "*Loan Underwriting and Servicing*". To the best of the knowledge and belief of the Offeror (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Agent Bank, the Note Trustee, the Principal Paying Agent, or the Registrar as to the accuracy or completeness of any information contained in this Prospectus (other than the information contained in the sections for which they are responsible, as set out above) or any other information supplied in connection with the Notes or their sale. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Lead Manager as to the accuracy or completeness of any information contained in this Prospectus or any other information supplied in connection with the Notes or their sale. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Arranger, the Lead Manager, the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Agent Bank, the Note Trustee, the Principal Paying Agent or the Registrar since the date of this Prospectus or that the information contained in this Prospectus is correct as of any time subsequent to its date.

## DISCLAIMER

None of the Arranger, the Lead Manager, the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Note Trustee or any Agent (other than in respect of the information contained in the sections, if any, for which they are responsible, as set out above) or any other party has separately verified the information contained in this Prospectus and, accordingly, none of the Arranger, the Lead Manager, the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Note Trustee or any Agent (other than in respect of the information contained in the sections, if any, for which they are responsible, as set out above) or any other party (save for the Issuer as specified above in relation to the acceptance of responsibility) makes any

representation, recommendation or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or in any further notice or other document which may at any time be supplied in connection with the Notes or their distribution or accepts any responsibility or liability therefor. None of the Arranger, the Lead Manager, the Offeror, the Issuer Account Bank, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Note Trustee or any Agent or any other party undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the aforementioned parties which is not included in this Prospectus.

## **OFFER/INVITATION/DISTRIBUTION RESTRICTIONS**

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF THE ISSUER, THE OFFEROR, THE ISSUER ACCOUNT BANK, THE GIC PROVIDER, THE LIQUIDITY FACILITY PROVIDER, THE OFFEROR INDEMNITY LOAN FACILITY PROVIDER, THE INTEREST RATE SWAP COUNTERPARTY, THE CURRENCY SWAP COUNTERPARTY, THE NOTE TRUSTEE, THE ARRANGER OR ANY OF ITS AFFILIATES, THE LEAD MANAGER, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR, OR ANY OTHER PERSON TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES OR TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED ("FSMA")). THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE ARRANGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS. IN PARTICULAR, THE COMMUNICATION CONSTITUTED BY THIS PROSPECTUS IS DIRECTED ONLY AT PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM AND ARE OFFERED AND ACCEPT THIS PROSPECTUS IN COMPLIANCE WITH SUCH RESTRICTIONS OR (II) INSIDE THE UNITED KINGDOM ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (*HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC.*) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 OR WHO OTHERWISE FALL WITHIN AN EXEMPTION SET FORTH IN SUCH ORDER SO THAT SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS COMMUNICATION MUST NOT BE DISTRIBUTED TO, ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A DESCRIPTION OF CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE "*SUBSCRIPTION AND SALE*" BELOW.

## **UNAUTHORISED INFORMATION**

IN CONNECTION WITH THE ISSUE AND SALE OF THE NOTES, NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY OR ON BEHALF OF THE ISSUER, THE OFFEROR, THE NOTE TRUSTEE, THE ARRANGER, THE LEAD MANAGER, THE COLLATERAL ADMINISTRATOR, THE GIC PROVIDER, THE LIQUIDITY FACILITY PROVIDER, THE OFFEROR INDEMNITY LOAN FACILITY PROVIDER OR THE CASH ADMINISTRATOR. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED IN IT IS CORRECT AS AT ANY TIME SUBSEQUENT TO ITS DATE.

## **GENERAL NOTICE**

EACH PURCHASER OF THE NOTES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION AT ANY TIME IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH NOTES OR POSSESSES OR DISTRIBUTES THIS PROSPECTUS AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH NOTES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUER, THE OFFEROR, THE NOTE TRUSTEE, THE ARRANGER (OR ANY OF THEIR AFFILIATES), THE LEAD MANAGER, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR, OR ANY AGENT SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER APPLICABLE UNITED STATES FEDERAL AND STATE SECURITIES LAWS. INITIAL INVESTORS AND SUBSEQUENT TRANSFEREES OF INTERESTS IN A GLOBAL NOTE WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS AS DESCRIBED HEREIN. ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF ANY OF THE NOTES THAT IS NOT MADE IN COMPLIANCE WITH THE APPLICABLE TRANSFER RESTRICTIONS WILL BE VOID.

## **GENERAL**

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Note Trustee, the Offeror or any Affiliate of the Offeror, the Issuer Account Bank, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the Arranger or any Affiliate of the Arranger or the Lead Manager to subscribe for, or purchase, any of the Notes in any jurisdiction to any Person to whom it is unlawful to make such an offer or invitation in such jurisdiction. In particular, the Notes are not being offered or sold to any Person in the United Kingdom except in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of FSMA or otherwise than in accordance with such regulations and all other applicable laws.

An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment.

Any individual intending to invest in any investment described in this prospectus should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

## **CURRENCY**

In this Prospectus, unless otherwise specified, references to "**euro**" or "**EUR**" and "**€**" are to the lawful currency of member states of the European Union that adopt the single currency in accordance with the EC Treaty, as amended, references to "**Sterling**", "**pound**" and "**£**" are to the lawful currency of the United Kingdom.

## **FORWARD LOOKING STATEMENTS**

This Prospectus contains certain forward-looking statements. Prospective investors should not place undue reliance on any such statements when making investment decisions as such statements are necessarily speculative in nature meaning that actual results may vary from the projections and forward looking statements contained herein.

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## TRANSACTION SUMMARY

*The summary below highlights information contained elsewhere in this Prospectus and does not contain all of the information that prospective investors should consider before investing in the Notes. It must be read only as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including any amendment and/or supplement thereto. Prospective investors should read the entire Prospectus carefully, including the "Risk Factors", for more information about important factors that they should consider before buying the Notes.*

*Capitalised terms used, but not defined, in this section can be found elsewhere in this Prospectus. For the page reference of the definitions of the capitalised terms used herein see the section entitled "Index of Defined Terms".*

### **The Issuer**

Sandown Gold 2011-1 plc is a public limited company incorporated under the laws of England and Wales with registered number 7451665 and having its registered office at 35 Great St. Helen's, London EC3A 6AP. The Issuer was incorporated to enter into the transaction described below (see further the section entitled *Issuer*).

### **The Transaction**

The Issuer will on the Issue Date issue the Notes. The Issuer will apply a portion of the net proceeds from the issue of the Notes towards payment of an acceptance price (which shall be the Issue Date Purchase Price) to the Offeror in respect of the offer by the Offeror of an unnotified equitable assignment of the Offeror's Benefit under the Collateral Loans (including any Further Advances not covered by the Issue Date Purchase Price) on the Issue Date pursuant to the Portfolio Offer Deed and the declaration of trusts in respect of the Related Security (as described below) on the Issue Date pursuant to the Declaration of Trusts. To the extent that the Issue Date Purchase Price is less than the sum of the Aggregate Principal Balance of the relevant Collateral Loans and their accrued but unpaid interest as at the Issue Date, Deferred Purchase Price will be payable by the Issuer in respect of the Unfunded Drawings. The Issuer shall deposit the remainder of the proceeds of the issue of the Notes into the Reserve Account.

To the extent that any Borrower requests a further drawing in respect of a Collateral Loan which is a Delayed Draw Obligation and the Offeror makes a Further Advance, such Further Advance will be automatically assigned and transferred to the Issuer.

Upon the grant of a Further Advance, the Issuer will be under an obligation to pay to the Offeror further payment equal to the principal amount outstanding in respect of such Further Advance. The Issuer may utilise Principal Receipts received during the relevant Note Calculation Period to fund the purchase of such Further Advance during the Replenishment Period provided that the Replenishment Criteria are satisfied in relation to such Further Advances. Alternatively, such payment may be paid by the Issuer by way of Deferred Purchase Price.

In addition, the Issuer may utilise Principal Receipts received during the relevant Note Calculation Period to fund the purchase of the Offeror's Benefit under Additional Collateral Loans or Unfunded Drawings during the Replenishment Period provided that the Replenishment Criteria are satisfied (see further the section entitled *Portfolio Offer Deed and Declaration of Trusts*).

Related Security may be taken by the Offeror in relation to some Collateral Loans. The Offeror will not assign its Benefit under such Related Security to the Issuer but will declare a trust over such Benefit (i) for the benefit of the Issuer and itself (each as a beneficiary) in relation to their respective interests (which in respect of the Issuer, shall correspond to its beneficial interest in the relevant Collateral Loan) in respect of the Related Security which is an All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests and (ii) for the benefit of the Issuer absolutely in respect of Other Related Security, pursuant to the Declaration of Trusts (see further the section entitled *Portfolio Offer Deed and Declaration of Trusts*).

The Issuer will use receipts of interest and principal in respect of the Collateral Loans (together with receipts allocated to it in relation to the enforcement of the Related Security, if any), together with amounts available to it under the Guaranteed Investment Contract, the Interest Rate Swap Agreement and drawings under the Liquidity Facility Agreement and, in relation to the Class A2 Notes, the Currency

Swap Agreement to make payments of, *inter alia*, interest and principal due in respect of the Notes. The obligations of the Issuer in respect of the Notes will rank below the obligations of the Issuer in respect of certain items set forth in the applicable Priority of Payments (see further the section entitled *Credit Structure*).

Pursuant to the Liquidity Facility Agreement, the Issuer will, subject to certain conditions, be entitled to make drawings up to the Liquidity Facility Maximum Amount in order to meet certain shortfalls in Revenue Available Funds (see further the section entitled *Credit Structure*).

Pursuant to the Offeror Indemnity Loan Facility Agreement, the Issuer will, subject to certain conditions, be entitled to make drawings up to the Required Amount in order to make payment in the event the Potential Set-Off Amount exceeds the Principal Amount Outstanding of the Class D Notes or in relation to any payment that the Issuer is required to make by the Tax Authority arising from the assignment of certain Collateral Loans, in each case, only to the extent that the Offeror has not paid to the Issuer the amounts owing by it to the Issuer under the relevant indemnity in the Portfolio Offer Deed (see further the section entitled *Credit Structure*).

Pursuant to the Guaranteed Investment Contract, the GIC Provider shall pay a certain guaranteed rate of interest on all funds standing to the credit of the Reserve Account, the Interest Account, the Principal Account, the Liquidity Facility Stand-by Drawing Account and the Liquidity Facility Account (see further the section entitled *Credit Structure*).

Under the Administration Agreement, the Collateral Administrator and Cash Administrator will provide services to the Issuer on a day-to-day basis in relation to the Collateral Loans and the Transaction generally including, without limitation, the collection of payments of principal, interest and other amounts in respect of the Collateral Loans, the implementation of arrears procedures and cash management (see further the section entitled *Collateral Administration and Cash Administration*).

Pursuant to the Interest Rate Swap Agreement, the Issuer will hedge a part of the interest rate risk it is exposed to due to the revenue income the Issuer receives under the Collateral Portfolio being calculated by reference to a fixed rate of interest or the Lloyds TSB Bank plc base rate and the interest payments the Issuer is obliged to make under the Notes being calculated by reference to three month LIBOR or EURIBOR (see further the section entitled *Credit Structure*).

Pursuant to the Currency Swap Agreement, the Issuer will hedge the currency risk it is exposed to in relation to the Class A2 Notes as a result of Class A2 Notes being denominated in euro and the income it receives in respect of the Collateral Portfolio being denominated in Sterling.

## **Security**

The Notes and certain other liabilities of the Issuer will be secured on, *inter alia*, the fixed and floating charges created in favour of the Note Trustee subject to and under the terms of the Trust Deed (see further the section entitled *Description of Security*).

## **Interest on the Notes**

The Issuer shall determine (or shall cause the Agent Bank to determine) the Rate of Interest for each Class of Rated Notes and calculate the amount of interest payable on each Class of Rated Notes for the relevant Quarterly Interest Period by applying the relevant Rate of Interest to the Principal Amount Outstanding of each Class of Rated Notes respectively.

No interest shall be payable on the Class D Notes. Each Class S Note shall receive by way of interest amounts (if any) remaining after the payment of higher ranking items in the Revenue Priority of Payments.

## **Redemption of the Notes**

Unless previously redeemed in accordance with the Conditions, the Issuer will redeem all of the Notes at their respective Principal Amount Outstanding on the Final Maturity Date.

During the Replenishment Period, the Notes will generally not be redeemed other than utilising amounts received by the Issuer pursuant to the relevant Revenue Priority of Payments in relation to any sums credited to the relevant Principal Deficiency Ledgers to the extent applicable.

In the period from (and including) the expiry of the Replenishment Period up to (but excluding) the Final Maturity Date or such earlier date on which all the Notes are redeemed in full, on each Note Payment Date, the Issuer shall apply any Replenishment/Redemption Available Funds, which broadly consists of all amounts of principal received (i) as repayment or prepayment on the Collateral Loans, (ii) amounts credited to the Principal Deficiency Ledgers, (iii) certain amounts received from the Currency Swap Counterparty, (iv) Set-off Amounts received from the Offeror or drawn down under the Offeror Indemnity Loan Facility Agreement and (v) in connection with a sale of the Collateral Loans, to (partially) redeem the Notes in accordance with the Principal Priority of Payments. See further the section entitled *Credit Structure*.

The Issuer will redeem the Notes in whole (but not in part), subject to and in accordance with the Conditions, if the Offeror exercises its (i) Ratings Downgrade Call Option, (ii) Clean-Up Call Option, (iii) Regulatory Call Option or (iv) General Call Option, each in accordance with the Conditions. The Notes may also be redeemed (in whole but not in part) for certain tax reasons in accordance with the Conditions. See further the section entitled *Terms and Conditions of the Notes*.

### **Listing**

Application has been made to the Irish Stock Exchange for the Rated Notes to be admitted to the Official List and trading on its Main Securities Market.

### **Rating**

It is a condition to the issue of the Notes that, on or about the Issue Date:

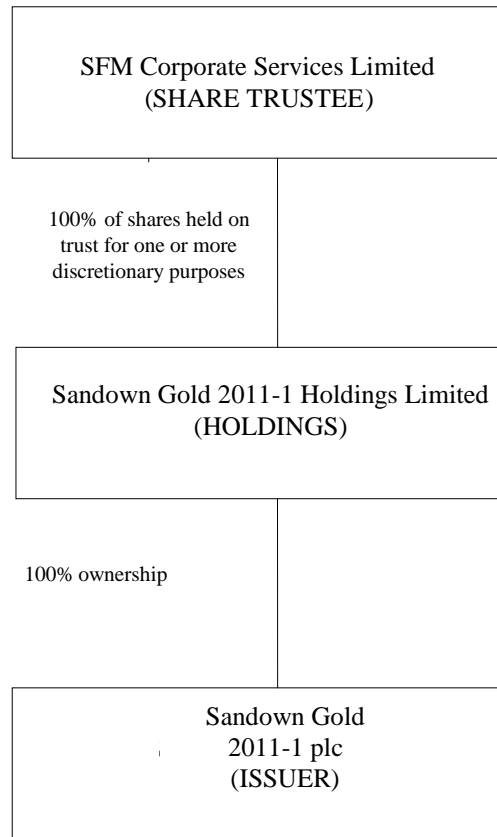
- (a) the Class A1 Notes be assigned on issue a credit rating of (i) Aaa(sf) by Moody's and (ii) AAA (sf) by Fitch;
- (b) the Class A2 Notes be assigned on issue a credit rating of (i) Aaa(sf) by Moody's and (ii) AAA(sf) by Fitch;
- (c) the Class B Notes be assigned on issue a credit rating of Aa2(sf) by Moody's; and
- (d) the Class C Notes be assigned on issue a credit rating of Baa2(sf) by Moody's.

The Class D Notes and the Class S notes will not be rated.

### **Risk factors**

There are certain factors which prospective Noteholders should take into account. These risk factors relate to, *inter alia*, the Notes such as (but not limited to) the fact that the obligations of the Issuer under the Notes are limited recourse obligations whereby the ability of the Issuer to meet such obligations will be dependent on the receipt by it of funds under the Collateral Loans and any Related Security (if any), the proceeds of the sale of any Collateral Loans and the receipt by it of other funds (including but not limited to the receipt of payments under the relevant Swap Agreement). Despite certain risk mitigating factors, there remain credit risks, liquidity risks, prepayment risks, maturity risks and interest rate risks relating to the Notes. Moreover, there are certain structural and legal risks relating to the Collateral Loans (see further the section entitled *Risk Factors*).

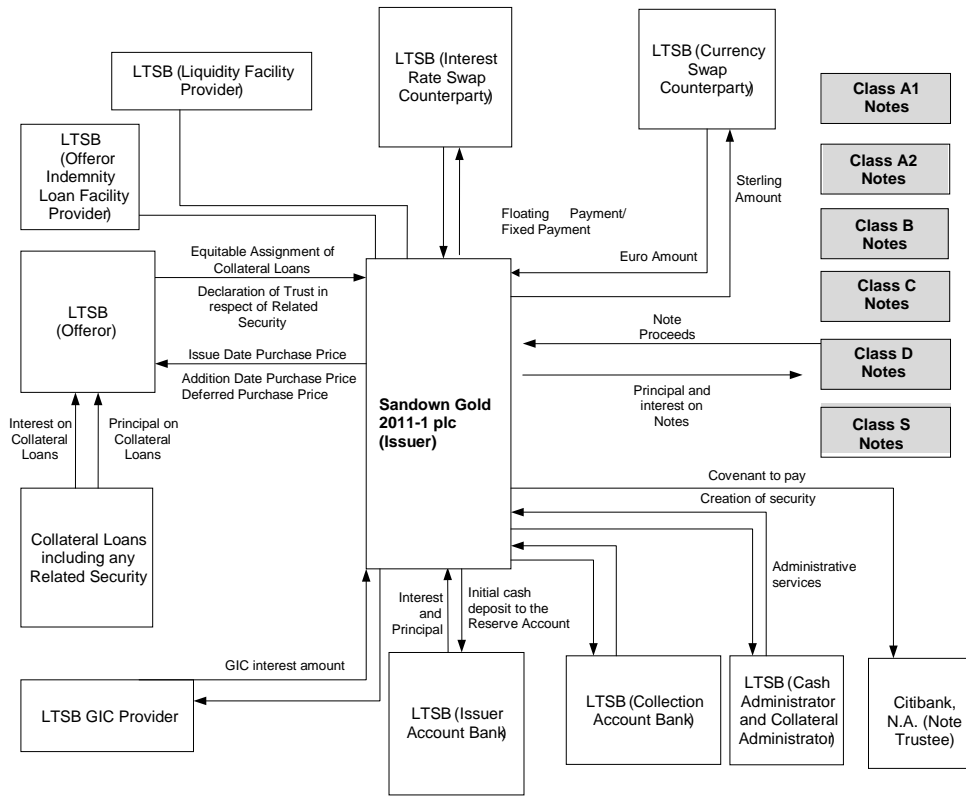
## Ownership Structure



The diagram above illustrates the ownership structure of the special purpose companies that will be parties to the transaction, as follows:

- The Issuer is wholly owned by Holdings.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust for one or more discretionary purposes.
- None of the Issuer, Holdings or the Share Trustee are either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Offeror or any member of the group of companies containing the Offeror.

# Structure Diagram



## TRANSACTION PARTIES AND TRANSACTION DESCRIPTION

*The following is a description of the principal features of the issue of the Notes. This description should be read in conjunction with, and is qualified in its entirety by the detailed information presented elsewhere in this Prospectus.*

### THE PARTIES

<b>Issuer:</b>	Sandown Gold 2011-1 plc, a public limited company incorporated under the laws of England and Wales with registered number 7451665 and having its registered office at 35 Great St. Helen's, London EC3A 6AP (the " <b>Issuer</b> ").
<b>Holdings:</b>	Sandown Gold 2011-1 Holdings Limited, a private limited company incorporated under the laws of England and Wales with registered number 7393617 and having its registered office at 35 Great St. Helen's London EC3A 6AP (" <b>Holdings</b> ").
<b>Offeror:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN (" <b>LTSB</b> " or the " <b>Offeror</b> ").
<b>Interest Rate Swap Counterparty:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>Currency Swap Counterparty:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>GIC Provider:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>Liquidity Facility Provider:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>Offeror Indemnity Loan Facility Provider:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>Collateral Administrator:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at New Uberior House, Level 1, 11 Earl Grey Street, Edinburgh, EH3 9BN.
<b>Cash Administrator</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at New Uberior House, Level 1, 11 Earl Grey Street, Edinburgh, EH3 9BN.

<b>Issuer Account Bank:</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) whose registered office is at 25 Gresham Street, London EC2V 7HN.
<b>Agent Bank:</b>	Citibank, N.A., acting through its London branch, whose offices are at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB with company number FC001835 and branch number BR001018.
<b>Principal Paying Agent:</b>	Citibank, N.A. acting through its London branch, whose offices are at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB with company number FC001835 and branch number BR001018.
<b>Registrar:</b>	Citibank, N.A. acting through its London branch, whose offices are at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB with company number FC001835 and branch number BR001018.
<b>Note Trustee:</b>	Citibank, N.A., acting through its London Branch, whose offices are at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB with company number FC001835 and branch number BR001018.
<b>Listing Agent:</b>	Arthur Cox Listing Services Limited, a company having its registered office at the Earlsfort Centre, Earlsfort Terrace, Dublin 2 (the " <b>Listing Agent</b> ").
<b>Corporate Services Provider:</b>	Structured Finance Management Limited, a company incorporated in England and Wales with limited liability (registered number 3853947) acting through its office at 35 Great St. Helen's, London EC3A 6AP (the " <b>Corporate Services Provider</b> ").
<b>Arranger:</b>	Lloyds TSB Bank plc.

## THE NOTES

**Notes:** On or about the Issue Date (or such other date as may be agreed between the Issuer and the Arranger), the Issuer shall issue:

- (a) the Class A1 Notes;
- (b) the Class A2 Notes;
- (c) the Class B Notes;
- (d) the Class C Notes;
- (e) the Class D Notes; and
- (f) the Class S Notes.

The Notes will be subject to the Conditions.

**Form of Notes:** The Rated Notes will be in registered form and each Class of Rated Notes will be represented by a Global Note, which, in the case of a Global Note relating to the Class A2 Notes, will be registered in the name of a nominee of the Common Safekeeper for Euroclear and Clearstream,

Luxembourg on or about the Issue Date and, in the case of a Global Note relating to the Class A1 Notes, the Class B Notes or the Class C Notes, will be registered in the name of a nominee of the Common Depositary for Euroclear and Clearstream, Luxembourg on or about the Issue Date. Individual Note Certificates will only be available in certain limited circumstances.

The Class D Notes and the Class S Notes will be in definitive registered form and will be represented by the Class D Individual Note Certificate and Class S Individual Note Certificate respectively.

**Issue Price:**

The issue price shall be for:

- (a) the Class A1 Notes, 100 per cent.;
- (b) the Class A2 Notes, 100 per cent.;
- (c) the Class B Notes, 100 per cent.;
- (d) the Class C Notes, 100 per cent.;
- (e) the Class D Notes, 100 per cent.; and
- (f) the Class S Notes, 100 per cent.

**Authorised Denomination:**

The Rated Notes represented by Global Note Certificates will, with the exception of the Class A2 Notes, on issue, be in denominations of £100,000 and any amount in excess thereof in integral multiples of £1,000 and in respect of the Class A2 Notes, will be in denominations of €100,000 and any amount in excess thereof in integral multiples of €1,000.

**Status and Ranking:**

Notes of each Class constitute direct, secured, limited recourse obligations of the Issuer.

Subject to and in accordance with the Conditions and the Trust Deed:

- (a) the Class A1 Notes and the Class A2 Notes rank in priority to the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes;
- (b) the Class B Notes rank in priority to the Class C Notes, the Class D Notes and the Class S Notes;
- (c) the Class C Notes rank in priority to the Class D Notes and the Class S Notes; and
- (d) the Class D Notes ranks in priority to the Class S Notes,

all in point of payment and security.

The Class A1 Notes and the Class A2 Notes are *pari passu* without any preference or priority among themselves.

See further the section entitled *Terms and Conditions of the Notes*.



**Interest:**

Each of the Notes (other than the Class D Notes) shall bear interest on its Principal Amount Outstanding.

Interest on the Notes is payable in arrear and by reference to a Quarterly Interest Period, and shall be payable on each Note Payment Date. Interest for the First Interest Period shall be based on a rate determined by a linear interpolation of rates for deposits of euro or Sterling, as applicable.

Each successive Quarterly Interest Period will commence on (and include) a Note Payment Date and end on (but exclude) the next following Note Payment Date, except for the first Quarterly Interest Period which will commence on (and include) the Issue Date and end on (but exclude) the Note Payment Date falling in December 2011.

Interest on the Notes will be calculated on the basis of the actual number of days elapsed in a Quarterly Interest Period and a year of 365 days (or 366 days in a leap year) with the exception of the Class A2 Notes, which will be calculated on the basis of the actual number of days elapsed in a Quarterly Interest Period and a year of 360 days.

A "**Business Day**" means a day, other than a Saturday or Sunday, on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System ("**TARGET2 System**") or any successor to the TARGET2 System is operating credit or transfer instructions in respect of payments in Sterling or euro and on which banking institutions in London are generally open for commercial business.

Subject to Condition 5 (*Interest*), interest on the Notes from (and including) the Issue Date will accrue at an annual rate equal to the sum of:

- (a) for the Class A1 Notes, a rate equal to LIBOR plus 1.70 per cent. per annum;
- (b) for the Class A2 Notes, a rate equal to EURIBOR plus 1.60 per cent. per annum;
- (c) for the Class B Notes, a rate equal to LIBOR plus 1.80 per cent. per annum;
- (d) for the Class C Notes, a rate equal to LIBOR plus 1.80 per cent. per annum; and
- (e) the Class S Notes will bear interest at a variable amount calculated in the manner described in Condition 5 (*Interest*).

No interest shall be payable on the Class D Notes.

To the extent that there are insufficient funds to pay interest on any Notes, other than the Most Senior Class of Notes, in accordance with the relevant Priority of Payments, such interest will be deferred as described in Condition 10.1 (*Subordination of the Payment of Interest*).

**Replenishment Period:** The Replenishment Period means a period from and including the Issue Date up to and including the Note Payment Date falling in September 2012, provided that the Replenishment Period shall terminate if the amount standing to the credit of the Reserve Account is less than £20,000,000.

**Final Maturity Date:** The Issuer will redeem the Notes in full (but not in part only) on the Note Payment Date falling in December 2038 (the "**Final Maturity Date**").

**Mandatory Partial Redemption of the Notes:** Subject to:

- (a) the Issuer having sufficient Replenishment/Redemption Available Funds on a Note Payment Date;
- (b) the Note Trustee not having delivered an Enforcement Notice in accordance with Condition 12 (*Events of Default*); and
- (c) the provisions of Condition 10 (*Subordination*),

the Issuer will apply Replenishment/Redemption Available Funds to redeem in part the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes at their Principal Amount Outstanding, subject to and in accordance with the Conditions and the applicable Priority of Payments.

See further the section entitled *Credit Structure*.

**Class D Notes:** The Class D Notes shall, at all times, be held by the Offeror. The purpose of the Class D Notes is to serve as a mitigant against the risk of set-off by Borrowers. In the event the Offeror elects not to reimburse the Issuer for a Set-Off Amount pursuant to the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount corresponding to such Set-Off Amount.

See further the section entitled *Credit Structure – Reductions in the Principal Amount Outstanding of the Class D Notes*.

**Ratings Downgrade Call Option:** The Offeror has the option (but not the obligation) (the "**Ratings Downgrade Call Option**") to serve a notice on the Issuer and the Note Trustee to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Business Day specified in such notice which shall be no earlier than 3 Business Days from the date of such notice (the "**Ratings Downgrade Call Date**") in the circumstances described in Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*), if there will be sufficient funds to pay all amounts of principal and interest due on the Ratings Downgrade Call Date in respect of the Rated Notes and

any senior ranking items, following which the Issuer is obliged to redeem the Notes in whole on the Ratings Downgrade Call Date at their Principal Amount Outstanding and accrued interest in accordance with such Condition.

**Clean-Up Call Option:**

The Offeror has the option (but not the obligation) (the "**Clean-Up Call Option**") to serve a notice on the Issuer and the Note Trustee to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date (the "**Clean-Up Call Date**") in the circumstances described in Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*), if there will be sufficient funds to pay all amounts of principal and interest due on the Clean-Up Call Date in respect of the Rated Notes and any senior ranking items, following which the Issuer is obliged to redeem the Notes in whole on the Clean-Up Call Date at their Principal Amount Outstanding and accrued interest in accordance with such Condition.

**Regulatory Call Option:**

The Offeror has the option (but not the obligation) (the "**Regulatory Call Option**") to serve a notice on the Issuer and the Note Trustee to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date (the "**Regulatory Call Date**") in the circumstances described in Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*), if there will be sufficient funds to pay all amounts of principal and interest due on the Regulatory Call Date in respect of the Rated Notes and any senior ranking items, following which the Issuer is obliged to redeem the Notes in whole on the Regulatory Call Date at their Principal Amount Outstanding and accrued interest in accordance with such Condition.

**General Call Option**

On each Note Payment Date after the Class A1 Notes and the Class A2 Notes have been repaid in full, the Offeror has the option (but not the obligation) (the "**General Call Option**") to serve a notice on the Issuer and the Note Trustee to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date (the "**General Call Date**") in the circumstances described in Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*), if there will be sufficient funds to pay all amounts of principal and interest due on such General Call Date in respect of the Rated Notes and any senior ranking items, following which the Issuer is obliged to redeem the Notes in whole on the General Call Date at their Principal Amount Outstanding and accrued interest in accordance with such Condition.

**Redemption for Tax Reasons:**

If (a) the Issuer is or will become obliged to make any withholding or deduction for, or on account of, any taxes, duties or charges of whatsoever nature from payments in respect of any Class of Notes, or (b) the Issuer has become or would become subject to United Kingdom corporation

tax in a corporation tax accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount retained during that corporation tax accounting period, as a result of any change in, or amendment to, the laws or regulations of Issuer's jurisdiction or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a ruling by a court of competent jurisdiction), which becomes effective on or after the Issue Date and such obligation or limitation (as applicable) cannot be avoided by the Issuer taking reasonable measures available to it then:

the Issuer has the option (but not the obligation) in circumstances described in (a) and (b) above to redeem all of the Notes on any Note Payment Date in whole (but not in part) together with interest accrued up to and including the date of redemption, subject to Condition 7.9 (*Redemption for tax reasons*), *provided in each case that*, the Issuer has sufficient funds to pay all amounts of principal and interest due on such Note Payment Date in respect of the Rated Notes and any senior ranking items.

**No Gross-Up Obligation**

Payments of interest and principal on the Notes may be paid without withholding or deduction for or an account of any tax, unless such withholding or deduction is required by law. If the Issuer is required to withhold or deduct amounts payable on the Notes on account of tax, the Issuer will not be obliged to gross-up any such payment obligation and this will not constitute an Event of Default.

**Enforcement**

Acceleration of the Notes following an Event of Default may not result in early redemption of the Notes in full. Although the Note Trustee may, and shall if directed by an Extraordinary Resolution of the Most Senior Class of Noteholders in accordance with the Conditions, serve an Enforcement Notice following an Event of Default, the proceeds of the enforcement of the Security granted pursuant to the Trust Deed may not be sufficient to repay in full principal and interest and other amounts outstanding in respect of the Notes, in a timely manner or at all.

**Limited Recourse**

The Issuer shall have no assets available to make any payments in respect of the Notes or (unless specifically provided otherwise in this Prospectus) to meet any other of its obligations under the Transaction Documents other than Available Funds actually received and available for use prior to each Note Payment Date. Payments on the Notes are in all circumstances subordinated to the payment of certain fees, expenses and liabilities of the Issuer and shall only be paid subject to and in accordance with the Priority of Payments.

If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each

Class are due and payable in full or are otherwise redeemed in full; or

- (ii) the service of an Enforcement Notice; and
- (b) Realisation of the Charged Assets and application in full of any amounts available to pay amounts due and payable under the Notes and to the other Secured Creditors in accordance with the applicable Priority (or Priorities) of Payments,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority (or Priorities) of Payments, to pay in full all amounts then due and payable by the Issuer under any Class of Notes or any Transaction Document then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes ranking junior to that Class of Notes) or such Transaction Document(s) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

#### **Governing Law**

The Notes, the Conditions, the Trust Deed and each Transaction Document shall be governed by English law.

#### **Listing and Admission to Trading**

The Prospectus has been approved by the Central Bank, as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Rated Notes to be admitted to the Official List and trading on its regulated market. See "*General Information*".

#### **COLLATERAL LOANS**

##### **Collateral Loans:**

The Offeror will offer an unnotified equitable assignment of the Offeror's Benefit under the Collateral Loans (including any Further Advances) originated by the Offeror (the "**Collateral Loans**") and the Issuer will accept such offer by the payment by the Issuer of an acceptance price (which is equal to the Issue Date Purchase Price) to the Offeror pursuant to a Portfolio Offer Deed (the "**Portfolio Offer Deed**") to be entered into between the Issuer, the Offeror and the Note Trustee on or about the Issue Date.

As a result of the purchase and assignment of the Offeror's Benefit under the Collateral Loans from the Offeror, the Issuer will be entitled to any and all rights of the Offeror under the Collateral Loans, including all interest and principal amounts due and payable by the Borrowers under the Collateral Loans from the Issue Date.

For this purpose:

"**Borrowers**" means the debtors of the Collateral Loans, including any jointly and severally liable co-debtors of the

Collateral Loans under the relevant Loan Agreement;

"**Collateral Loan**" means any loan and proceeds thereof which forms part of the Collateral Portfolio purchased by the Issuer pursuant to the Portfolio Offer Deed; and

"**Loan Agreement**" means a facility agreement in relation to a Collateral Loan entered into between the relevant Borrower and, amongst others, the Offeror as amended, restated and/or novated from time to time.

**Related Security:**

Security may be taken by the Offeror in relation to some Collateral Loans. "**Related Security**" means in relation to a Collateral Loan, any underlying security for the repayment of that Collateral Loan which comprises of All Moneys Security, or other types of security in which both the Offeror and the Issuer have beneficial interests, and Other Related Security. In most cases, Related Security takes the form of an unlimited or all moneys security in that such security purports to secure the repayment of all present and future sums that may be advanced by the Offeror to the relevant Borrower, including sums that do not constitute a Collateral Loan (the "**Associated Debt**") as well as securing the repayment of the relevant Collateral Loan ("**All Moneys Security**"). There may be other Related Security taken by the Offeror where the Related Security was taken in respect of a Collateral Loan only and which only secures the relevant Borrower's obligations towards the Offeror under the Collateral Loans ("**Other Related Security**").

In relation to the Related Security, the Offeror (as holder of such security) will (i) declare a trust for the benefit of the Issuer and itself (each as a beneficiary), in relation to their respective interests (which in respect of the Issuer, shall correspond to its beneficial interest in the relevant Collateral Loan) in the All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests and (ii) declare a trust for the benefit of the Issuer absolutely in respect of the Other Related Security, pursuant to a trust instrument to be dated on or about the Issue Date (the "**Declaration of Trusts**"). Upon enforcement of the Related Security which is an All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests, the Offeror (being the security holder of such All Moneys Security and trustee under the relevant trust) will distribute, from the enforcement proceeds of such Related Security, all available amounts to the Issuer in respect of the Collateral Loans and the Offeror in respect of the Associated Debt on a *pro rata* basis.

**Replenishment:**

During the Replenishment Period, the Collateral Administrator (on behalf of the Issuer) may use Principal Receipts (i) in response to an offer from the Offeror, to acquire (by way of an unnotified equitable assignment) all or part of Additional Collateral Loans, or (ii) to fund all or part of Unfunded Drawings or Further Advances made in respect of an existing Collateral Loan, each subject to the satisfaction of the Replenishment Criteria. For the avoidance of doubt, Unfunded Drawings and Further

Advances are automatically assigned to the Issuer upon acquisition of the related Collateral Loan and prior to their funding by the Issuer. Replenishment can take place on any Business Day.

See further the sections entitled *Portfolio Offer Deed and Declaration of Trusts*.

**Purchase Price of Collateral Loans and Deferred Purchase Price**

As part of the payment for the acceptance of the assignment of the Offeror's Benefit under the Collateral Loans and the trusts declared by the Offeror in respect of the benefit under the Related Security (if any) on the Issue Date the Issuer will pay an acceptance price (the "**Issue Date Purchase Price**") to the Offeror on the Issue Date. To the extent that the Issue Date Purchase Price (or as the case may be, the Addition Date Additional Collateral Loan Purchase Price, as to which see below) is less than the sum of the Aggregate Principal Balance of the Collateral Loans on the Issue Date (or, as the case may be, the Addition Date) and accrued but unpaid interest of such Collateral Loans as at the Issue Date (or as the case may be, the Addition Date), Deferred Purchase Price will be payable by the Issuer in respect of the unfunded part of the relevant Collateral Loans (the "**Unfunded Drawings**") as described in more detail in *Portfolio Offer Deed and Declaration of Trusts* section. The Issuer will apply a portion of the net proceeds from the issue of the Notes towards payment of the Issue Date Purchase Price.

Deferred Purchase Price shall be payable by the Issuer to the Offeror from Principal Receipts. This payment shall be made outside and not subject to the relevant Priority of Payments, on any Business Day.

In addition, the Issuer will also transfer to the Offeror, as Deferred Purchase Price, any prepayment fees or penalties, waiver fees, late payment fees, commitment fees and all other fees and commissions received by the Issuer in respect of a Collateral Loan outside, and not subject to, the relevant Priority of Payments.

To the extent that any Collateral Loan is sold to the Offeror or a third party in circumstances described in sections *Repurchase of Individual Collateral Loans by the Offeror* on page 15, *Sale of Collateral Loans by the Note Trustee following Enforcement* on page 17, *General Call Option* on page 11, *Ratings Downgrade Call Option, Clean-Up Call Option* and *Regulatory Call Option* on page 10 or *Redemption for Tax Reasons* on page 11, the Issuer (or, as the case may be, the Note Trustee) shall retain the Issuer Share of the proceeds in respect of such sale and shall transfer the remainder of such proceeds to the Offeror as Deferred Purchase Price.

**Repurchase of Individual Collateral Loans by the Offeror**

Following the sale and assignment of the Collateral Loans and the declaration of trusts in respect of the Related Security (if any), the Offeror may (and in some circumstances shall) repurchase individual Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans in accordance with the *Portfolio Offer Deed*,

including in the following circumstances:

- (a) the Offeror may repurchase the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if the Offeror notifies the Issuer and the Cash Administrator that it has determined that some of the Collateral Loans may be refinanced on terms more advantageous than those provided by the Notes; or
- (b) the Offeror may repurchase the relevant Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if the Offeror intends to sell, sub-participate, dispose of, create a beneficial interest or enter into any analogous transaction with respect to any Collateral Loan or part thereof to a third party if such action is necessary or desirable from the point of view of a reasonably prudent lender or if the Offeror is required to dispose of any Collateral Loans or part thereof as a result of the implementation of the Restructuring Plan; or
- (c) the Offeror may repurchase any Collateral Loan and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loan if such Collateral Loan has become a Credit Impaired Obligation, where  

**"Credit Impaired Obligation"** means any Collateral Loan which, (i) in the opinion of the Collateral Administrator (a) has a significant risk of declining in credit quality and, with the lapse of time, may become a Defaulted Collateral Loan, or (b) is declining in credit quality, or (ii) is a Defaulted Collateral Loan; or
- (d) the Offeror shall repurchase any Collateral Loan and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loan if it is determined that any asset representations and warranties given by the Offeror pursuant to the Portfolio Offer Deed in respect of such Collateral Loan was breached at the Issue Date or the relevant Addition Date (as applicable).

Any Collateral Loan which has become a Defaulted Collateral Loan during a Note Calculation Period and which is intended to be repurchased by the Offeror (which repurchase for the avoidance of doubt, shall be at par) on or before the relevant Note Payment Date, shall not be treated as a Defaulted Collateral Loan but instead shall be deemed and considered to be a Collateral Loan as described in limb (i) of the definition of Credit Impaired Obligation.

In the above circumstances, the purchase price to be paid by the Offeror shall be the Aggregate Principal Balance of



such Collateral Loans together with accrued and unpaid interest up to but excluding the date of repurchase and re-assignment of such Collateral Loan.

The Issuer Share of all the proceeds from any repurchase effected under paragraph (c)(ii) above shall be treated as Interest Receipts. In relation to any repurchase effected under paragraph (a), (b), (c)(i) and (d) above, the Issuer Share of the Aggregate Principal Balance of such Collateral Loans shall be treated as Principal Receipts and (A) prior to the expiry of the Replenishment Period, may be utilised by the Collateral Administrator to fund the purchase of the Offeror's Benefit under Additional Collateral Loans, Unfunded Drawings and/or Further Advances, subject to the satisfaction of the relevant Replenishment Criteria and (B) following the expiry of the Replenishment Period, shall be applied to redeem the Notes in accordance with the relevant Priority of Payments and the Issuer Share of the relevant accrued and unpaid interest on such Collateral Loans shall be treated as Interest Receipts. The remainder of the proceeds shall be repaid by the Issuer to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant Priority of Payments.

There will be certain limits in relation to the repurchase of Collateral Loans described in (a) and (b) above. The Offeror shall not repurchase Collateral Loans in circumstances described in (a) and (b) above to the extent that the Issuer Share of the proceeds paid by the Offeror in each Transaction Year would exceed 3% (the "**Annual Limit**") of the aggregate amount of the Funded Aggregate Principal Balance of the entire Collateral Portfolio as at the Issue Date. However, in relation to the Repurchase of Collateral Loans, described in (b) above, the Offeror shall be permitted to repurchase Collateral Loans in excess of and in addition to the Annual Limit as a result of the implementation of the Restructuring Plan to the extent required by the relevant competent regulatory authority.

"**Transaction Year**" means each full year commencing on (and including) 27 July to (but excluding) 27 July in the next following calendar year.

**Sale of Collateral Loans in whole by the Issuer in connection with redemption:**

The Issuer may not dispose of the Collateral Loans, except to comply with its obligations under the Notes in certain circumstances and further as provided in the Portfolio Offer Deed. If the Issuer sells the Collateral Loans it will sell such Collateral Loans (together with its beneficial interest in respect of any Related Security) to the Offeror.

If the Issuer sells and re-assigns the portfolio of Collateral Loans (together with its beneficial interest in respect of the Related Security (if any)) to the Offeror, the purchase price shall be calculated as follows:

- (a) in respect of Collateral Loans that are not Defaulted Collateral Loans, the purchase price will be the sum of the aggregate amount of Aggregate Principal Balance in respect of such Collateral Loans together with any accrued

interest up to but excluding the date of repurchase and re-assignment of the relevant Collateral Loans; and

- (b) in respect of Collateral Loans that are Defaulted Collateral Loans, the purchase price will be equal to the sum of an amount that would allow the Issuer to pay all amounts of principal and interest due on the relevant Note Payment Date in respect of the Rated Notes,

in each case, plus any costs incurred by the Issuer in effecting and completing such sale and re-assignment, which shall be paid by the Offeror on the date of such sale and re-assignment.

**Sale of Collateral Loans by the Note Trustee following Enforcement**

If, as a result of any Event of Default under the Notes, the Security is enforced by or on behalf of the Note Trustee and in relation to which the Collateral Loans (together with any Related Security) are disposed of by or on behalf of the Note Trustee, the Note Trustee will use its reasonable endeavours to ensure that the following provisions will apply:

- (a) if the Collateral Loans are sold and re-assigned to the Offeror, the paragraph above in relation to the sale of Collateral Loans by the Issuer in connection with the redemption will apply; and
- (b) if the Collateral Loans are sold to any third party, the purchase price shall be the Minimum Third Party Purchase Price.

The Note Trustee shall be entitled to appoint a Receiver and such Receiver may sell the Collateral Loans (and dispose of the Issuer's beneficial interest in the Related Security (if any)) subject to the provisions of the Trust Deed and relevant statutes. The Note Trustee or any Receiver appointed by it may not be able to sell the Collateral Loans (and dispose of the Issuer's beneficial interest in the Related Security (if any)) to any third party at the Minimum Third Party Purchase Price, in which case the Note Trustee or any Receiver appointed by it shall not be precluded from selling the Collateral Loans and disposing of the Issuer's beneficial interest in the Related Security (if any) at a price below the Minimum Third Party Purchase Price. See further the section entitled *Risk Factors – The Notes – Maturity Risk*.

For the purposes of the immediate two sections above and if used elsewhere in the Prospectus,

**"Bankruptcy"** means that a Borrower is (1) dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it proceedings seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or

insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceedings or petition instituted or presented against it, such proceedings or petition (A) results in a judgment of insolvency or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (5) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; (8) in relation to an individual, a court order has been made following the presentation of a bankruptcy petition; or (9) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction has an analogous effect to any of the events specified in clauses (1) to (8) inclusive;

**"Credit Event"** means: (a) Bankruptcy has occurred and/or (b) the Transfer to Recovery of the relevant Collateral Loan has occurred;

**"Transfer to Recovery"** means in respect of any Borrower, the transfer of the accounts or group of accounts of the lender of record of the Borrower to Wholesale Banking Recoveries (WBR), the recovery unit of the lender of record, according to the standard practice of the lender of record;

**"Defaulted Collateral Loan"** means a Collateral Loan in respect of which a Credit Event has occurred and is continuing;

**"Expected Recovery"** means, in respect of a Defaulted Collateral Loan and in the case of a sale to any third party, the actual purchase price agreed to be paid by such third party in respect of such Defaulted Collateral Loan. The Expected Recovery of a Defaulted Collateral Loan shall be determined as follows: (i) if a Defaulted Collateral Loan is sold to a third party on a Note Payment Date or a preceding Note Calculation Date or on any day between such dates and the purchase price for such Defaulted Collateral Loan is known on such Note Calculation Date, the Expected Recovery of such Defaulted Collateral Loan shall be determined on the Note Calculation Date immediately preceding that Note Payment Date; and (ii) if a Defaulted Collateral Loan is not sold in the circumstances described in (i) above then the Expected Recovery of such Defaulted Collateral Loan shall be determined on or prior to the day such Defaulted

Collateral Loan is sold.

**"Issuer Share"** means at any date of calculation (i) in respect of a Collateral Loan in respect of which no Deferred Purchase Price is payable by the Issuer, 100%; (ii) in respect of a Collateral Loan in respect of which Deferred Purchase Price is payable by the Issuer, a percentage which is a fraction, the numerator of which is the Funded Aggregate Principal Balance of such Collateral Loan and the denominator of which is the Aggregate Principal Balance of such Collateral Loan in each case as calculated by the Cash Administrator, provided that the Issuer Share shall not exceed 100%. For the avoidance of doubt, the term "Issuer Share" should not be construed as creating or purporting to create any proprietary interest of the Offeror or any Noteholder in the Collateral Loans (or the Related Security, if any);

**"Minimum Third Party Purchase Price"** means an amount at least equal to (i) in respect of the Collateral Loans that are not Defaulted Collateral Loans, the aggregate amount of the Aggregate Principal Balance in respect of such Collateral Loans together with any accrued interest up to but excluding the date of sale and assignment of such Collateral Loans and any costs incurred in effecting and completing such sale and assignment and (ii) in respect of any Defaulted Collateral Loans, the aggregate Expected Recovery of such Collateral Loans.

**Set-Off by Borrowers and assignment related issues**

The Portfolio Offer Deed provides that if a Borrower invokes a right of set-off for amounts due to it by the Offeror against the relevant Collateral Loan and, as a consequence thereof, the Issuer has not received on a relevant Business Day the amount which it is entitled to receive in respect of such Collateral Loan, the Offeror will pay to the Issuer on the next Business Day an amount equal to the difference between the amount which the Issuer would have received in respect of the relevant Collateral Loan if no set-off had taken place and the amount actually received by the Issuer in respect of such Collateral Loan in each case, subject to the Issuer Share.

In addition, the Portfolio Offer Deed provides that if the Issuer is required by the Tax Authority to pay certain taxes arising out of the assignment of certain Collateral Loans to the Issuer, the Offeror will pay to the Issuer on the next Business Day after such demand an amount equal to such Required Tax Payment.

To secure the obligations of the Offeror in respect of amounts relating to set-off, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount corresponding to the Set-Off Amounts owed to the Issuer by the Offeror in the event the Offeror elects not to reimburse such amounts pursuant to the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount. In addition, the Offeror shall make loan advances to the Issuer under the Offeror Indemnity Loan Facility Agreement if (i) its credit ratings have fallen below the

Potential Set-Off Required Ratings and (ii) there is a Set-Off Shortfall (see further the section entitled *Offeror Indemnity Loan Facility* below).

**Collateral Portfolio:** The portfolio of loans to small and medium-sized enterprise borrowers in the UK, a portion of which may be secured by Related Security, to be assigned (in respect of the Collateral Loans) by the Offeror to the Issuer on the Issue Date and any applicable Addition Date pursuant to the Portfolio Offer Deed and, in respect of the Related Security, to be subject to the Declaration of Trusts.

**Administration Agreement:** On or about the Issue Date, the Issuer, the Collateral Administrator, the Cash Administrator and the Note Trustee will enter into an Administration Agreement (the "**Administration Agreement**"). Under the Administration Agreement, the Issuer will appoint the Collateral Administrator and the Cash Administrator to provide certain payment collection transactional services, including, without limitation, collection services relating to the payment by Borrowers of principal, interest and other amounts in respect of the Collateral Loans.

See further the section entitled *Administration Agreement*.

## NOTE SECURITY

**Trust Deed:** On or about the Issue Date the Issuer and the Note Trustee, *inter alios*, will enter into a trust deed (the "**Trust Deed**"). Under the Trust Deed, the Note Trustee shall act as note trustee for the Noteholders and the other Secured Creditors and shall exercise its powers and authorities subject to and in accordance with the Trust Deed and the other Transaction Documents. The Conditions are set out in the Trust Deed.

Pursuant to the Trust Deed, the Issuer will create, in favour of the Note Trustee, the Security as continuing security for the discharge of the Secured Amounts. The Note Trustee will hold the Security on trust for the benefit of the Secured Creditors.

See further the section entitled *Description of Security*.

## CASH FLOW

**Liquidity Facility:** On or about the Issue Date, the Issuer, the Liquidity Facility Provider and the Note Trustee will enter into a term liquidity facility agreement with the Liquidity Facility Provider (the "**Liquidity Facility Agreement**") pursuant to which the Issuer will, subject to certain conditions, be entitled to make drawings up to the Liquidity Facility Maximum Amount in order to meet certain shortfalls in the Revenue Available Funds (the "**Liquidity Facility**"). If the Liquidity Facility Provider does not have certain minimum required ratings, as more particularly described in the section entitled *Credit Structure – Liquidity Facility*, then, amongst other things, the Issuer shall make a Liquidity Facility Standby Drawing and credit such funds to the Liquidity Facility

Stand-by Drawing Account.

See further the section entitled *Credit Structure – Liquidity Facility*.

**Offeror Indemnity Loan Facility:**

On or about the Issue Date, the Offeror Indemnity Loan Facility Provider, the Issuer and the Note Trustee will enter into a loan facility agreement (the "**Offeror Indemnity Loan Facility Agreement**") pursuant to which the Issuer will, if the credit ratings of the Offeror have been downgraded to below the Potential Set-Off Required Ratings, be entitled to make drawings under such Offeror Indemnity Loan Facility Agreement equal to the Required Amount.

The Issuer shall, on any Note Payment Date, have the right to apply such drawings toward payments of any Set-Off Shortfall or any Required Tax Payment as at such Note Payment Date, only to the extent that the Offeror has not made such payment to the Issuer pursuant to the Portfolio Offer Deed.

For the purposes of this section and if used elsewhere in the Prospectus,

"**Required Tax Payment**" means any payment the Issuer is required to make to the Tax Authority as a result of the tax representation made by the Offeror in the Portfolio Offer Deed, proving to be untrue; and

"**Set-Off Shortfall**" means the greater of (i) zero and (ii) an amount equal to the Potential Set-Off Amount *less* the Principal Amount Outstanding of the Class D Notes.

See further the section entitled *Credit Structure – Offeror Indemnity Loan Facility Agreement*.

**Account Bank Agreement:**

On or about the Issue Date, the Issuer, the Issuer Account Bank and the Note Trustee, *inter alios*, will enter into an account bank agreement (the "**Account Bank Agreement**"). Under the Account Bank Agreement, the Issuer Account Bank will open and maintain the following accounts held in the name of the Issuer and provide the Issuer with certain account management and cash handling services in respect of these accounts:

- (a) Interest Account;
- (b) Principal Account;
- (c) Swap Account;
- (d) Note Proceeds Account;
- (e) Euro Account;
- (f) Reserve Account;
- (g) Cash Collateral Account;
- (h) Liquidity Facility Account;

- (i) Liquidity Facility Stand-By Drawing Account;
- (j) Swap Collateral Account; and
- (k) Swap Termination Account.

The above accounts of the Issuer shall be administered by the Cash Administrator on behalf of the Issuer in accordance with the Administration Agreement.

The Issuer Account Bank is subject to certain minimum required ratings and if such requirements are not met, certain remedial actions will be taken as described in the section entitled *Credit Structure – Ratings of the Issuer Account Bank and the GIC Provider*.

**Guaranteed Investment Contract:**

On or about the Issue Date, the Issuer, the Note Trustee and the GIC Provider, *inter alios*, will enter into a guaranteed investment contract (the "**Guaranteed Investment Contract**") pursuant to which the GIC Provider shall pay a certain guaranteed rate of interest on all funds standing to the credit of the Interest Account, the Principal Account, the Reserve Account, the Liquidity Facility Account and the Liquidity Facility Stand-by Drawing Account.

See further the section entitled *Credit Structure – Guaranteed Investment Contract*.

The GIC Provider is subject to certain minimum required ratings and if such requirements are not met, certain remedial action will be taken as described in the section entitled *Credit Structure – Ratings of the Issuer Account Bank and the GIC Provider*.

**Interest Rate Swap Agreement:**

On or about the Issue Date, the Issuer, the Note Trustee and the Swap Counterparty (in its capacity as the "**Interest Rate Swap Counterparty**") will enter into an interest rate swap agreement (the "**Interest Rate Swap Agreement**"). Under the Interest Rate Swap Agreement, the Issuer will hedge part of the interest rate risk it is exposed to as a result of the different interest bases between the income the Issuer will receive under the Collateral Loans and the interest payments the Issuer is obliged to make under the Notes. The Interest Rate Swap Counterparty is subject to certain minimum required ratings, as more particularly described in the section entitled *Credit Structure – Interest Rate Swap Agreement*. If the Interest Rate Swap Counterparty does not meet such requirements, it is obliged to undertake certain actions as described in the section entitled *Credit Structure – Interest Rate Swap Agreement*.

See further the section entitled *Credit Structure – Interest Rate Swap Agreement*.

**Currency Swap Agreement:**

On or about the Issue Date, the Issuer, the Note Trustee and the Swap Counterparty (in its capacity as the "**Currency Swap Counterparty**") will enter into a currency swap agreement (the "**Currency Swap Agreement**"). Under the Currency Swap Agreement, the

Issuer will hedge its exposure against the Sterling cashflows it will receive from the Collateral Loans (after taking into account payments made under the Interest Rate Swap Agreement) compared with its obligations to make the euro payments on the Class A2 Notes. The Currency Swap Counterparty is subject to certain minimum required ratings, as more particularly described in the section entitled *Credit Structure – Currency Swap Agreement*. If the Currency Swap Counterparty does not meet such requirements, it is obliged to undertake certain actions as described in the section entitled *Credit Structure – Currency Swap Agreement*.



## **REGULATORY DISCLOSURE**

LTSB will retain a material net economic interest of at least 5% in the securitisation in accordance with Article 122(a) of the CRD. As at the Issue Date, such interest will be comprised of an interest in no less than 5% of the Principal Amount Outstanding of each Class of Notes. Any change to the manner in which such interest is held will be notified to investors.

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122(a) of the CRD and none of the Issuer, the Arranger, the Offeror, the Lead Manager nor the Transaction Parties make any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition each prospective investor should ensure that they comply with the implementing provisions in respect of Article 122(a) of the CRD in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

## **RISK FACTORS**

*An investment in the Notes of any Class involves certain risks, including risks relating to the Charged Assets securing such Notes and risks relating to the structure and rights of such Notes and the related arrangements. Prospective investors should carefully consider the following risk factors, in addition to the matters set forth elsewhere in this Prospectus prior to investing in any Notes.*

*An investment in the Notes is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to suffer any potential loss stemming therefrom.*

*The Issuer believes that the risks described below are the material risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks relating to the Notes are exhaustive. Additional risks or uncertainties not presently known to the Issuer or that the Issuer currently considers immaterial may also have an adverse effect on the Issuer's ability to pay interest, principal or other amounts in respect of the Notes. Prospective Noteholders should read the detailed information set out in this document and reach their own views, together with their own professional advisers, prior to making any investment decision.*

*None of the Issuer, the Offeror, the Arranger, the Lead Manager, the Note Trustee, the Collateral Administrator, the Cash Administrator, the Agents, the Swap Counterparties, the Offeror Indemnity Loan Facility Provider, the Liquidity Facility Provider, the GIC Provider or any other party to the Transaction Documents has an obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date of this Prospectus or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.*

*Defined terms used in this section and the other sections of the Prospectus can be found via the Index of Defined Terms.*

*Investing in the Notes involves certain risks. Prospective investors should consider, among other things, the following:*

### **1. General**

#### **1.1 Liabilities in respect of the Notes and limited recourse**

The Notes will be solely obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, any other entity or person, in whatever capacity acting, including, without limitation, any of the Transaction Parties (other than the Issuer). Furthermore, none of the Transaction Parties (other than the Issuer) nor any other person in whatever capacity acting, will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes.

The Notes will be limited recourse obligations of the Issuer. The ability of the Issuer to meet its obligations in full to pay principal and interest on the Notes will be dependent on, *inter alia*, the receipt by it of funds under or in connection with the Collateral Loans and any Related Security (if any), the proceeds of any sale of Collateral Loans, the receipt by it of payments under the relevant Swap Agreement and the receipt by it of interest in respect of the balances standing to the credit of the Issuer Accounts. The balances standing to the credit of the Issuer Accounts and the amounts available to be drawn under the Liquidity Facility for certain of its payment obligations are also available to the Issuer.

Payment of principal and interest on the Notes will be secured by the security granted by the Issuer to the Note Trustee pursuant to the Trust Deed. If the security granted pursuant to the Trust Deed is enforced and the proceeds of such enforcement, after payment of all other claims ranking in priority to amounts due under the Notes, are insufficient to repay in full principal and interest and other amounts due in respect of the Notes, then, as the Issuer has no other assets, it may be unable to satisfy claims in respect of any such unpaid amounts. Enforcement of the Security granted to the Note Trustee pursuant to the Trust Deed in accordance with the terms of the Trust Deed and the Notes is the only remedy available to Noteholders for the purpose of

recovering amounts owed in respect of the Notes. Failure by the Issuer to make payment in respect of the Most Senior Class (subject to any grace periods) will constitute an Event of Default by the Issuer under Condition 12 (*Events of Default*).

None of the Offeror, Note Trustee, the Arranger, the Lead Manager, the Liquidity Facility Provider, the Issuer Account Bank, the GIC Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Swap Counterparties or the Agents undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Offeror, Note Trustee, the Arranger, the Lead Manager, the Liquidity Facility Provider, the Issuer Account Bank, the GIC Provider, the Offeror Indemnity Loan Facility Provider, the Collateral Administrator, the Cash Administrator, the Swap Counterparties or the Agents which is not included in this Prospectus.

*By acquiring the Notes, the Noteholders shall be deemed to have knowledge of, accept and be bound by the Conditions. Neither the Issuer nor the Principal Paying Agent will have any responsibility for the proper performance by Euroclear or Clearstream, Luxembourg of their obligations under their respective rules, operating procedures and calculation methods.*

#### 1.2 ***Limited Resources of the Issuer***

The funds available to the Issuer to pay its expenses on any Note Payment Date are limited as provided in the relevant Priority of Payments. In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired and it may not be able to defend legal proceedings brought against it or bring legal proceedings which it might otherwise bring to protect its interests and this may result in an Event of Default of the Notes and/or losses to the Noteholders.

#### 1.3 ***Reliance on third parties***

The Issuer is a party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. Counterparties of the Issuer may not perform their respective obligations under the Transaction Documents, which may result in the Issuer not being able to meet its obligations. In particular, it should be noted that there is a risk that LTSB in its capacity as Offeror, Interest Rate Swap Counterparty, Currency Swap Counterparty, the Collateral Administrator, Cash Administrator, Issuer Account Bank, GIC Provider, the Offeror Indemnity Loan Facility Provider or Liquidity Facility Provider will not perform its obligations *vis-à-vis* the Issuer under the Portfolio Offer Deed, the Interest Rate Swap Agreement, the Currency Swap Agreement, the Administration Agreement, the Guaranteed Investment Contract, the Account Bank Agreement, the Offeror Indemnity Loan Facility Agreement or the Liquidity Facility Agreement which may adversely affect payments on the Notes. The Offeror, the Arranger, the Lead Manager, the Note Trustee, the Swap Counterparties, the Collateral Administrator, the Cash Administrator, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the GIC Provider, the Agents and/or any of their Affiliates, as well as the other parties to the Transaction acting in their respective capacities, shall not, by virtue of acting in any such capacity, be deemed to have other duties or responsibilities other than as expressly provided with respect to each such capacity.

There can be no certainty that, in the event that any such third party needs to be replaced, a replacement party can be found to take over their responsibilities or that such replacement party will agree to do so on identical terms of those agreed with the outgoing party. Furthermore, the liability of any such party, the extent to which the Issuer may make a claim in the event of inadequate performance or non performance may be limited by the provisions of the relevant contract (such as to fraud, wilful default or negligence). In such case, the ability of the Issuer to recover damages incurred may be reduced, which would in turn affect the amount available to make payments under the Notes.

In particular, LTSB will be appointed by the Issuer as Collateral Administrator to perform certain administrative services in relation to the Collateral Loans. If the Collateral Administrator is no longer able to perform its duties under the Administration Agreement, there can be no assurance that a substitute collateral administrator with sufficient experience would be found who would be

willing, able and authorised to perform the duties of the Collateral Administrator in relation to the Collateral Loans on the terms of the Administration Agreement, which could delay collection of payments on the Collateral Loans and ultimately could adversely affect payments on the Notes. The ability of a substitute collateral administrator to fully perform 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 collateral administrator may affect payments on the Collateral Loans and hence the Issuer's ability to make payments when due on the Notes.

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Issuer Account Bank, the GIC Provider, the Swap Counterparties or the Liquidity Facility Provider) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term and long-term unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the Issuer) may in certain circumstances be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes.

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. In accordance with the provisions of Condition 18 (*Modification and Waiver of Breach*), the consent of Noteholders may not be required in relation to such amendments and/or waivers.

#### 1.4 ***Other Commercial Relationships of the Parties Involved and Conflicts of interest***

LTSB is acting in a number of capacities (i.e., as Offeror, Issuer Account Bank, GIC Provider, Interest Rate Swap Counterparty, Currency Swap Counterparty, Collateral Administrator, Cash Administrator, Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, Arranger and Lead Manager) in connection with the transaction described herein (the "**Transaction**"). LTSB in acting in such capacities in connection with the Transaction shall have only the duties and responsibilities expressly agreed to by it in its relevant capacity and shall not, by virtue of its acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to hold a standard of care other than as expressly provided with respect to each such capacity. Furthermore, conflicts of interest between the interests of LTSB and the interests of the Noteholders and/or the other Transaction Parties may exist or may arise as a consequence of LTSB acting in a number of different capacities in this Transaction.

Any party to the Transaction may have entered or may enter into business dealings with each other or with third parties (including the Borrowers) from which they may derive revenues and profits in addition to any fees stated in the various documents, without any duty to account therefor and may from time to time be in possession of certain information (confidential or otherwise) and/or opinions, which information and/or opinions might, if known by other parties (or individuals responsible for monitoring or advising the Issuer) or any Noteholder, affect decisions made by it (or them), including with respect to an investment in the Notes. Notwithstanding this, none of the parties to the Transaction including the Arranger shall have any duty or obligation to notify the Issuer, the Note Trustee, any Noteholder or any other party to the Transaction thereof (save as expressly provided in the Transaction Documents).

The parties to the Transaction may also have ongoing relationships with each other and may own securities or other obligations issued by them or deal in any obligation of another party to the Transaction and may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking, investment management or

other business transactions with each other and may act with respect to such transactions in the same manner as if the Transaction Documents, the Transaction and the Notes did not exist. The Offeror and/or its Affiliates may have other loans, equity positions or other relationships with Borrowers or their Affiliates as outlined above. These loans, equity positions and other relationships may give rise to interests that are different from or adverse to the interests of the Noteholders. There are no restrictions in the relevant agreements on such loans or relationships and the Offeror shall not be obliged to have regard for the interests of the Issuer or the Noteholders in its business transactions with Borrowers or their Affiliates.

Any party to the Transaction (including LTSB), other than the Issuer, may purchase Notes from time to time and their interests may conflict with those of other Noteholders. As a consequence of these or other such relationships, potential or actual conflicts of interest may exist and/or arise in relation to the Transaction.

1.5 ***Conflicts of Interest Among Noteholders***

In connection with the exercise of its functions (including but not limited to those referred to in Condition 14 (*The Note Trustee*)), the Note Trustee shall have regard to the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class S Noteholders, each as a Class, and shall not have regard to the consequences of such exercise for individual Noteholders. If, in relation to the exercise or performance of its functions described in Condition 14.3 (*Noteholder interests*), the Note Trustee is of the opinion that there is or may be a conflict between holders of any Classes of Notes, the Note Trustee shall have regard only to the interests of the Most Senior Class of Notes then Outstanding.

1.6 ***Conflicts of Interest between Noteholders and other Secured Creditors***

So long as any of the Notes remain outstanding, the Note Trustee is not required to have regard to the interests of the other Secured Creditors. If there are no amounts outstanding in relation to the Notes, the Note Trustee shall have regard to the interests of the Secured Creditors, provided that, if there is a conflict of interest between such Secured Creditors, the applicable Priority of Payments shall determine which interests shall prevail.

1.7 ***Interest Rate Risk***

The Rated Notes bear interest at floating rates based on LIBOR (apart from the Class A2 Notes which bear interest at floating rates based on EURIBOR). However, interest under the Collateral Loans is calculated by reference to either a fixed rate of interest or the Lloyds TSB Bank plc base rate.

In the case of the Rated Notes, which will bear interest at a rate based on LIBOR (apart from the Class A2 Notes, which will bear interest at a rate based on EURIBOR) for the period from one Note Payment Date (or, in the case of the first Quarterly Interest Period, the Issue Date) to the next Note Payment Date, there may be a floating/fixed rate or basis mismatch between the Rated Notes and the underlying Collateral Loans. As a result of such mismatches, a change in the level of LIBOR or EURIBOR (as applicable) could adversely impact the ability of the Issuer to make payments on the Notes. The Issuer will enter into the Interest Rate Swap Agreement to hedge a part of its interest rate exposure in a notional amount equal to the aggregate of the Class A Notes and the Class B Notes, or, if greater, the Fixed Rate Collateral Loans. There will be some residual unhedged interest rate exposure given that the Class C Notes, the Class D Notes and the Class S Notes shall remain unhedged, and this may adversely affect the position of these Notes. However, the Issuer will not enter into swap transactions to hedge such interest rate exposure in respect of each individual Collateral Loan.

The Issuer's ongoing payment obligations under such Interest Rate Swap Agreement (including termination payments) may be significant. The payments associated with such hedging arrangements generally rank senior to payments on the Notes.

The Issuer will depend upon the Interest Rate Swap Counterparty to perform its obligations under the Interest Rate Swap Agreement entered into to cover part of its interest rate exposure. If the

Interest Rate Swap Counterparty or the Issuer defaults or becomes unable to perform due to insolvency or otherwise, or if the Interest Rate Swap Agreement is terminated as a result of certain termination events, the Issuer may not receive payments it would otherwise be entitled to from such Interest Rate Swap Counterparty to cover its interest rate exposure.

Although the Interest Rate Swap Agreement will be entered into to hedge a part of its interest rate exposure, losses may be incurred by the Noteholders in the event of a default or termination event under such Interest Rate Swap Agreement.

#### 1.8 ***Currency Risk***

The Issuer will receive, amongst other things, Sterling denominated payments on and in respect of Collateral Loans it intends to purchase under the Portfolio Offer Deed. The Issuer will make payments in euro on the Class A2 Notes it intends to issue on the Issue Date. In order to hedge the foreign exchange rate risk associated with the Issuer converting part of the payments of principal and interest under the Collateral Loans (after taking into account payments made under the Interest Rate Swap Agreement) into euro, the Issuer will, on the Issue Date, enter into the Currency Swap Agreement with the Currency Swap Counterparty.

The Issuer's ongoing payment obligations under the Currency Swap Agreement (including termination payments) may be significant. The payments associated with such hedging arrangements generally rank senior to payments on the Class A Notes.

The Issuer will depend upon the Currency Swap Counterparty to perform its obligations under the Currency Swap Agreement entered into to cover its currency exposure. If the Currency Swap Counterparty or Issuer defaults or becomes unable to perform due to insolvency or otherwise, or if the Currency Swap Agreement is terminated as a result of certain termination events, the Issuer may not receive payments it would otherwise be entitled to from such Currency Swap Counterparty to cover its currency exposure.

Although the Currency Swap Agreement will be entered into in respect of the Class A2 Notes, losses may be incurred by the Noteholders in the event of a default or termination event under the Currency Swap Agreement.

#### 1.9 ***Swap Counterparty Risk***

In the event that any Swap Counterparty does not pay the amount payable under the Swap Agreement when due, Available Funds may be less than would otherwise be the case and this could result in reduced payments to Noteholders. In addition, if a Swap Agreement is terminated, the Cash Administrator (on behalf of the Issuer) may be obliged to use Available Funds to pay a termination payment, including any default or breakage costs, under such Swap Agreement.

Except where the relevant Swap Counterparty has caused the relevant Swap Agreement to terminate by its own default, any termination payment in respect of such Swap Agreement due by the Issuer will generally rank in priority to payments of interest due and payable on the Notes. Any additional amount required to be paid by the Issuer following termination of any such Swap Agreement (including any extra costs incurred if the Issuer cannot enter into a replacement swap agreement), will also generally rank ahead of payments due on the Notes. If the Issuer is obliged to make a termination payment to a Swap Counterparty or to pay any other additional amount as a result of the termination of the relevant Swap Agreement, this may reduce or adversely affect the amount of funds which the Issuer has available to make payments on the Notes of any Class. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the relevant Swap Agreement or that the Issuer will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant Class of Notes.

Furthermore, if any Swap Counterparty were to default in respect of its obligations under a Swap Agreement so as to result in a termination of such Swap Agreement, the Issuer will use commercially reasonable efforts to enter into a replacement arrangement with another appropriately rated entity, which may require the Issuer to make a payment. A failure to enter into such a replacement arrangement may result in a downgrading on the rating of the Rated

Notes, and may reduce the amount of funds available to make payments on the Notes. In addition, if the Issuer fails to enter into such replacement arrangement, the Collateral Portfolio will remain unhedged and the payment to be made in respect of the Class A2 Notes will be exchanged by the Issuer by reference to the relevant spot rate. This may in turn reduce the amount of funds available to make payments on the Notes.

In the event of the insolvency of a Swap Counterparty the Issuer will be treated as a general creditor of such Swap Counterparty. Consequently, the Issuer will be subject to the credit risk of such Swap Counterparty, as well as that of the Collateral Loans.

To mitigate this risk, under the terms of the Swap Agreements, in the event that the relevant short-term and/or long-term ratings of a Swap Counterparty fail to meet the Swap Counterparty Required Ratings, such Swap Counterparty will, in accordance with the terms of the relevant Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the relevant Swap Agreement and at its own cost which may include providing collateral for its obligations under the relevant Swap Agreement, arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the Swap Counterparty Required Ratings, procuring another entity with the Swap Counterparty Required Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Swap Agreement or such other action that would result in the Rating Agencies continuing the then current rating of the Rated Notes or restoring it to the level prior to the downgrade event. No assurance can be given that, at the time that such actions are required, sufficient collateral will be available to the Swap Counterparty or that another entity with the Swap Counterparty Required Ratings will be available to become a co-obligor or guarantor.

1.10 ***Notes may not be suitable investments for all investors***

Prospective purchasers of the Notes of any Class should ensure that they understand the nature of such Notes and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in such Notes and that they consider the suitability of such Notes as an investment in the light of their own circumstances and financial condition.

2. **The Notes**

2.1 ***No Gross-up for Taxes***

As provided in Condition 8 (*Taxation*), if withholding of, or deduction for, or on account of any present or future taxes, duties, assessments or charges of whatever nature are imposed and levied by or on behalf of the United Kingdom, any authority therein or thereof having power to tax, and such withholding or deduction is required by law, the Issuer or the Principal Paying Agent (as the case may be) will make the required withholding or deduction of such taxes, duties, assessments or charges for the account of the Noteholders, as the case may be, and will not be obliged to pay any additional amounts to such Noteholders in respect of such withholding or deduction.

2.2 ***Recent events in the financial markets***

In late 2006 the sub-prime mortgage loan market in the United States commenced a period characterised by a large number of borrower defaults. Prior to the commencement of such period, a significant volume of sub-prime mortgage loans had been securitised and, in turn sub-prime mortgage backed securities had been sold to Collateralised Debt Obligations ("CDOs") of asset backed securities ("ABS") and other investment funds. As a result of the deterioration of the US sub-prime mortgage loan market, CDOs of ABS and other investment funds that invested in US sub-prime mortgage backed securities began experiencing significant losses which has triggered a series of events that resulted in severe liquidity crisis in the global credit markets from the summer of 2007, including in market sectors with little or no exposure to sub-prime mortgages and/or to the United States.

There continue to exist additional risks for the Issuer and investors as a result of the current liquidity crisis. These risks include, among others, (i) the possibility that, on or after the Issue

Date, the price at which assets can be sold will have deteriorated from their effective purchase price and (ii) the increased illiquidity of the Notes as there may be little or no secondary trading in certain securities. These additional risks may affect the returns on the Notes to investors or the market for the Notes, as applicable.

In addition, the current crisis has stalled the primary and secondary markets for a number of financial products including certain loan products. The impact of the crisis on the primary and secondary markets may ultimately adversely affect the returns on the Notes to investors.

While such market conditions have shown signs of improvement in certain sectors of the global credit markets, it is difficult to predict whether, or to what extent, such market improvement will continue and/or how long the adverse market conditions will continue to exist.

### 2.3 ***Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes***

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Arranger, the Lead Manager or any of the Transaction Parties makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

In particular, investors should be aware of Article 122(a) of the CRD (and any implementing rules in relation to a relevant jurisdiction) which applies in general to newly issued securitisations after 31 December 2010. Article 122(a) of the CRD restricts an EU regulated credit institution from investing in a securitisation unless the originator, sponsor or original lender in respect of that securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5% in that securitisation as contemplated by Article 122(a) of the CRD. Article 122(a) of the CRD also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, the Notes it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122(a) of the CRD may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant investor.

Article 122(a) of the CRD applies in respect of the Notes so investors which are EU regulated credit institutions should therefore make themselves aware of the requirements of Article 122(a) of the CRD (and any implementing rules in relation to a relevant jurisdiction) in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any investor reports provided in relation to the transaction for the purpose of complying with Article 122(a) of the CRD and none of the Arranger, the Lead Manager or any of the Transaction Parties makes any representation that the information described above is sufficient in all circumstances for such purposes.

There remains considerable uncertainty with respect to Article 122(a) of the CRD and it is not clear what will be required to demonstrate compliance to national regulators. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122(a) of the CRD and any implementing rules in a relevant jurisdiction should seek guidance from their regulator. Similar requirements to those set out in Article 122(a) of the CRD are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings and certain hedge fund managers) in the future.

Article 122(a) of the CRD and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual



investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

#### 2.4 *Implementation of, and amendments to, the Basel II framework may affect the regulatory capital and liquidity treatment of the Notes*

The regulatory capital framework published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in 2006 (the "**Basel II framework**") has not been fully implemented in all participating countries. The way in which the Basel II framework is implemented in a given jurisdiction may affect the regulatory capital treatment of the Notes for investors who are subject to regulatory supervision in that jurisdiction. In addition, during 2010 the Basel Committee published a number of changes to the Basel II framework, including new capital and liquidity requirements for credit institutions (collectively referred to as the "**Basel III amendments**").

In the European Union the Basel II framework has been implemented via a number of directives collectively referred to as the Capital Requirements Directive. A number of changes to the Capital Requirements Directive reflecting, amongst other things, the Basel III amendments, have been made or proposed or are anticipated in 2011 (referred to as CRD2, CRD3 and CRD4 and collectively as the "**CRD amendments**"). The way in which the Basel III amendments and the CRD amendments are implemented in a given jurisdiction may affect the regulatory capital and liquidity treatment of the Notes for investors who are subject to regulatory supervision in that jurisdiction.

Changes to the regulatory capital and liquidity treatment of the Notes for investors may have an impact on investors' incentives to hold the Notes and, as a result, may affect the liquidity and/or market value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital and liquidity treatment of the Notes and the consequences to an individual investor of the implementation of the Basel II framework and/or the Basel III amendments, the CRD amendments and the relevant local implementing measures. No predictions can be made as to the precise nature of such treatment or consequences.

#### 2.5 *Limited liquidity of the Notes*

There is currently a very limited secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes.

Investors should note that the market for the Notes will be affected by, amongst other things, supply and demand for the Notes, and that, accordingly, it should not be assumed that there will be a significant correlation between the market value of the Notes and the market value of the Collateral Portfolio. Prospective investors should be aware that the market value of the Notes may also be affected by events in the capital and credit markets which may have an effect on the market value of the Collateral Portfolio, the Issuer and/or similar structured securities generally.

In addition, the liquidity of any trading market (should any develop) in the Notes may be adversely affected by changes in the overall market for investment and non-investment grade securities. If such a trading market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors including prevailing interest rates and the market for similar securities.

Consequently, a purchaser must be prepared to hold such Notes until the Final Maturity Date or such earlier date on which the Notes are redeemed in full. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees. Such restrictions on the transfer of the Notes may further limit their liquidity.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the European Central Bank liquidity scheme provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such schemes are likely to adversely impact secondary market liquidity for asset-backed securities in

general, regardless of whether the Notes are eligible securities. In addition, there is no assurance that the Notes are or will be eligible for such schemes whether currently or prospectively.

Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market in accordance with the Prospectus Directive, there can be no assurance that admission to the Irish Stock Exchange will be achieved or, if achieved, will be maintained.

## 2.6 *Average Life and Prepayment Considerations*

The average life of each Class of Notes may be different to the number of years specified until their Final Maturity Date. No assurance can be given as regards the exact average life of any of the Notes. Average life refers to the average amount of time that will elapse from the date of issue of each Class of Notes until amounts in respect of principal of such Notes have been repaid in full to the holder thereof.

The average life of the Notes will depend on, amongst other things, the structure of the Notes (including payment priorities), the Replenishment Period and the amount and timing of payment of principal in respect of the Collateral Loans (including full and partial repayments and prepayments, the sale of the Collateral Loans by the Issuer and the Net Proceeds allocated to the Issuer upon enforcement of any Related Security).

The average life of the Notes may be adversely affected by a higher or lower than anticipated rate of prepayments on the Collateral Loans and Borrowers defaulting on their obligations under the Collateral Loans. The rate of prepayment of Collateral Loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, changes in tax laws, local and regional economic conditions and changes in Borrower's behaviour. No guarantee can be given as to the level of prepayment that the Collateral Loans may experience.

In respect of certain Collateral Loans in the Collateral Portfolio, the Borrower may be required to make payments by a required number of instalments representing both interest and principal following the advances of the relevant Collateral Loan. The amounts to be made by the Borrower under these instalments will vary with changes in the interest rate in respect of such Collateral Loans and the number of days in the relevant charging period, which may affect the average life of the relevant Collateral Loan, which may in turn, affect the average life of the Notes.

In the period from (and including) the expiry of the Replenishment Period up to (but excluding) the Final Maturity Date or such earlier date on which all the Notes are redeemed in full, on each Note Payment Date, the Issuer shall apply any Replenishment/Redemption Available Funds, which broadly consists of (i) all amounts of principal received as repayment or prepayment on the Collateral Loans, (ii) all amounts of principal received in connection with the enforcement of the Collateral Loans and any Related Security, (iii) certain amounts received from the Currency Swap Counterparty, (iv) Set-Off Amounts received from the Offeror or amounts drawn under the Offeror Indemnity Loan Facility Agreement, to the extent such amounts relate to principal amounts and (v) in connection with a sale of the Collateral Loans, to (partially) redeem the Notes in accordance with the Principal Priority of Payments. Prior to the expiry of the Replenishment Period, Replenishment/Redemption Available Funds may be applied to (partially) redeem the Notes in accordance with item (c) of the Principal Priority of Payments to the extent Revenue Available Funds were credited to the Principal Deficiency Ledgers and may be applied to the credit of the Principal Account pending acquisition of the Offeror's Benefit in Additional Collateral Loans and funding of Unfunded Drawings or Further Advances at a later date in accordance with limb (b) of item (b) of the Principal Priority of Payments up to the Replenishment Funding Limit. Replenishment/Redemption Available Funds will not be applied to the credit of the Principal Account in accordance with limb (b) of item (b) of the Principal Priority of Payments if crediting such amounts to the Principal Account would breach the Replenishment Funding Limit. Any such excess amounts shall instead be applied to (partially) redeem the Notes in accordance with item (d) and onwards of the Principal Priority of Payments. In addition, prospective investors should be aware that, in addition to the Annual Limit of 3% applicable to the repurchase of the Collateral Loans and Re-acquisition of the Issuer's beneficial interest in the Related Security (if any) in certain circumstances, the Offeror is also permitted to repurchase the relevant Collateral Loans and re-acquire the Issuer's beneficial interest in the

Related Security (if any) in respect of such Collateral Loans as a result of the implementation of the Restructuring Plan to the extent required by the relevant competent regulatory authority. If the Offeror were to repurchase the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in these circumstances, the average life of the Notes may be affected. Prospective investors should be aware that no assurance can be given that the Collateral Loans included in this Transaction would not be subject to the Restructuring Plan and the extent to which the SME loans originated by Lloyds Banking Group may be required to be sold or divested pursuant to the Restructuring Plan cannot be determined with precision until nearer the date of sale. For further information on the Restructuring Plan, see "*The Offeror, the Issuer Account Bank, the Cash Administrator, the Collateral Administrator, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Interest Rate Swap Counterparty and the Currency Swap Counterparty – State Aid Review*" below.

The average life of the Notes may also be affected by the early redemption of the Notes in accordance with Condition 7 (*Redemption, Purchase and Cancellation*), by the occurrence of an Event of Default or by the repurchase of individual Collateral Loans as described in the subsection *Repurchase of Individual Collateral Loans* in the section *Portfolio Offer Deed and Declaration of Trusts* below.

#### 2.7 ***Notes, subordination and credit enhancement***

As stated in Condition 10 (*Subordination*), amongst other things, (a) the Class A1 Notes and Class A2 Notes rank in priority to the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes; (b) the Class B Notes rank in priority to the Class C Notes, the Class D Notes and the Class S Notes and (c) the Class C Notes rank in priority to the Class D Notes and the Class S Notes.

The subordination of the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes with respect to each Class of Notes ranking higher in point of payment and security is designed to provide credit enhancement to the Most Senior Class or Classes (as applicable) of Notes, respectively. If, upon default by the Borrowers, the Issuer does not receive the full amount due from such Borrowers under and in respect of the relevant Collateral Loans, the Noteholders could receive an amount that is less than what is due and payable to it by the Issuer in respect of the amounts of principal and/or interest owed in respect of the Notes. Any losses on the Collateral Loans will be allocated first to the Class of Notes ranking most junior in point of payment and security, as described below. See further the section entitled *Credit Structure* and Condition 10 (*Subordination*). Subordination of other Note Classes may not protect more senior Noteholders from all risks of loss.

#### 2.8 ***Deferral of Interest Payments on the Notes***

If, on any Note Payment Date the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) due and payable in respect of any Class of Notes, (other than the Most Senior Class of Notes then Outstanding), after having paid or provided for items of higher priority in the Revenue Priority of Payments, then the Issuer will be entitled under Condition 10 (*Subordination*) to defer payment of that amount (to the extent of the shortfall) until the following Note Payment Date or such earlier date as interest in respect of such Class of Notes becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Note Payment Date or such earlier date as interest in respect of such Class of Notes becomes immediately due and repayable in accordance with the Conditions, the deferral of interest in accordance with Condition 10 (*Subordination*) shall continue until the Final Maturity Date or such other date on which the Notes are redeemed in full.

#### 2.9 ***Class D Notes***

At all times the Class D Notes shall be held by the Offeror. The Class D Notes will be used to mitigate the risk of set-off by Borrowers. In the event the Offeror elects not to reimburse the Issuer for a Set-Off Amount pursuant to the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay any Set-Off Amount, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount

corresponding to such Set-Off Amount. There is therefore a possibility that the payments from the Issuer in respect of the Class D Notes received by the Class D Noteholders may be less than the Principal Amount Outstanding of the Class D Notes as at the Issue Date.

## 2.10 ***Maturity risk***

The ability of the Issuer to redeem the Notes in full prior to the Final Maturity Date pursuant to the occurrence of an event or circumstance under which it is required to or has the option to redeem the Notes, and accordingly, to pay all amounts due to the Noteholders, may depend upon whether the value of the Collateral Loans that need to be sold or otherwise realised, is sufficient to redeem the Notes.

The proceeds of the sale of Collateral Loans and any Related Security will determine whether the Issuer is able to redeem the Rated Notes pursuant to Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*), Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*), Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*), Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*) or Condition 7.9 (*Redemption for tax reasons*). According to these Conditions, the Issuer will only be able to redeem the Notes if it has sufficient funds to redeem the Rated Notes in full at their Principal Amount Outstanding plus any accrued but unpaid interest and all amounts ranking in priority thereto.

If the Issuer redeems the Notes pursuant to Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*) or Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*) or Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*) or 7.8 (*Redemption of the Notes following the exercise of the General Call Option*) or in accordance with Condition 7.9 (*Redemption for tax reasons*), it shall sell such Collateral Loans and its beneficial interest in any Related Security to the Offeror.

Following the service of an Enforcement Notice, if, at the point of sale to a third party, there are Defaulted Collateral Loans in the Collateral Portfolio, the purchase price for Defaulted Collateral Loans and the Issuer's beneficial interest in the Related Security (if any) depends on the aggregate amount of the Expected Recoveries for the Defaulted Collateral Loans. The purchase price for a Defaulted Collateral Loan may, therefore, be lower than the Aggregate Principal Balance of such Defaulted Collateral Loan and the Issuer's beneficial interest in the Related Security (if any). This could mean that the Issuer may be unable to redeem the Rated Notes prior to the Final Maturity Date in accordance with any of Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*), Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*), Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*), Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*) or Condition 7.9 (*Redemption for tax reasons*), where the Issuer will not receive sufficient funds to pay all amounts of principal and interest due in respect of the Rated Notes and senior ranking items.

In the case of a sale of Collateral Loans and the Issuer's beneficial interest in any Related Security following the service of an Enforcement Notice, the Note Trustee will use its reasonable endeavours to sell the Collateral Loans (including any Defaulted Collateral Loans) and the Issuer's beneficial interest in any Related Security for a price at least equal to (i) in respect of the Collateral Loans that are not Defaulted Collateral Loans, the Aggregate Principal Balance in respect of such Collateral Loans together with any accrued interest up to but excluding the date of sale and assignment of such Collateral Loans and any costs incurred by the Note Trustee in effecting and completing such sale and assignment and (ii) in respect of any Defaulted Collateral Loans, the aggregate Expected Recovery of such Collateral Loans.

Notwithstanding this, if the Note Trustee is unable to sell the Collateral Loans and the Issuer's beneficial interest in any Related Security at the Minimum Third Party Purchase Price or if the purchase price is lower than the Minimum Third Party Purchase Price and/or the Aggregate Principal Balance in respect of such Collateral Loans this may, depending on the balance on the Reserve Account, result in a principal shortfall in respect of a Class of Notes. Prospective investors should note that the Note Trustee is not precluded from selling the Collateral Loans and

disposing of the Issuer's beneficial interest in the Related Security (if any) at a price below the Minimum Third Party Purchase Price. This could, in turn, mean that the Noteholders may receive by way of principal repayment on the Notes an amount less than the face amount of their Notes. The Note Trustee shall not be liable to any person if, having used its reasonable endeavours, it is unable to sell the Collateral Loans in accordance with the foregoing procedures and the Note Trustee shall not be responsible if the purchase price received upon the sale of the Collateral Loans and disposal of the Issuer's beneficial interest in the Related Security (if any) is lower than the Principal Amount Outstanding of the Notes and/or is below the Minimum Third Party Purchase Price and as a result there is a principal shortfall in respect of a Class of Notes and/or the Noteholders receive by way of principal repayment on the Notes an amount less than the Principal Amount Outstanding in respect of such Notes. As the holder of a qualifying floating charge under paragraph 14 of Schedule B1 of the Insolvency Act, it should be noted that the Note Trustee shall be entitled, at any time after the occurrence of an Event of Default and delivery of an Enforcement Notice or upon another party seeking to commence administration proceedings against the Issuer, to appoint an administrative receiver and such administrative receiver shall have the power to, amongst other things, sell the Collateral Loans and dispose of the Issuer's beneficial interest in any Related Security (subject to the provisions of the Trust Deed and relevant statutes). If the Collateral Loans are not sold by the Note Trustee or the Receiver appointed by it then, in any event, the Notes (if not redeemed in full earlier) will be redeemed on the Final Maturity Date to the extent of the Available Funds.

There is therefore a possibility that, in certain circumstances, the Issuer may not be able to redeem the Notes in full and its inability to redeem the Notes might continue until the Final Maturity Date. Consequently, a purchaser of the Notes must be prepared to hold any Notes until the Final Maturity Date.

#### 2.11 *Volatility of the Class S Notes*

The Class S Notes represent a leveraged investment in the underlying Collateral Loans. Accordingly, it is expected that changes in the market value of the Class S Notes will be greater than changes in the market value of the underlying Collateral Loans, which themselves are subject to credit, liquidity, interest rate and other risks. Utilisation of leverage is a speculative investment technique and involves certain risks to investors and will generally magnify the Class S Noteholders' opportunities for gain and risk of loss.

#### 2.12 *Noteholders' Resolutions*

The Trust Deed includes provisions for the passing of an Extraordinary Resolution (whether at a Noteholders' meeting by way of vote or by written resolution) of the Noteholders in respect of (among any other matters) amendments to the Conditions of the Notes and/or the Trust Deed. Such provisions include, among other things, (i) quorum requirements for the holding of Noteholders' meetings and (ii) voting thresholds required to pass Extraordinary Resolutions at such meetings (or through written resolutions). The quorum required for a meeting of Noteholders convened to vote on an Extraordinary Resolution other than regarding a Reserved Matter is two or more person(s) holding or representing a majority of the Principal Amount Outstanding of the Notes then Outstanding in that Class or those Classes. The quorum at an adjourned meeting is two or more persons holding or representing Noteholders of that Class or those Classes. The quorum required for a meeting of Noteholders convened to vote on an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each Class of Noteholders) will be two or more person(s) holding or representing at least 75 per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant Class or Classes. The quorum at an adjourned meeting to vote on an Extraordinary Resolution relating to a Reserved Matter is two or more person(s) holding or representing not less than  $33\frac{1}{3}$  per cent of the Principal Amount Outstanding of the Notes then Outstanding in the relevant Class or Classes. It should however be noted that amendments may still be effected and waivers may be granted in respect of such provisions in circumstances where not all Noteholders agree with the terms thereof and any amendments or waivers once passed in accordance with the provisions of the Conditions and the provisions of the Trust Deed will be binding on all such dissenting Noteholders.

2.13 ***Voting Rights upon an Event of Default and Enforcement***

Subject to the Conditions of the Notes, if an Event of Default has occurred and is continuing, the Note Trustee may, in its absolute discretion or shall, if so directed by an Extraordinary Resolution of the holders of the Most Senior Class, deliver an Enforcement Notice to the Issuer and may in its absolute discretion and without further notice (*provided that* it is indemnified and/or secured to its satisfaction) take such steps and/or institute such proceedings as it may think fit to enforce its rights under and in accordance with the Trust Deed and other Transaction Documents (including the Conditions). To the extent that there is any conflict in the directions given, the Note Trustee shall have regard only to the directions of the holders of the Most Senior Class of Notes then Outstanding. See further Condition 12 (*Events of Default*) and Condition 13 (*Enforcement*).

2.14 ***Credit ratings***

The ratings assigned to the Rated Notes by the Rating Agencies address the likelihood of full and (in relation to a rating provided by Fitch, where such rating is "AAA(sf)" only) timely payment to the holders of the Rated Notes of interest and the likelihood of full and ultimate payment of principal on the Rated Notes. Credit ratings of debt securities represent rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and, if applicable, interest payments and do not evaluate the risks of fluctuations in market value; therefore, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an Issuer's current financial condition may be better or worse than a credit rating indicates. 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 any one or more of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. There is no assurance that any such ratings will continue for any period of time. At any time, a Rating Agency may revise its relevant rating methodology, with the result that any rating assigned to the Notes may be lowered or withdrawn entirely by a Rating Agency if, in its judgement, circumstances in future so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may have an adverse effect on the value of the Notes.

Agencies other than the Rating Agencies could seek to rate the Notes and if such "unsolicited ratings" are lower than the comparable ratings assigned to the Notes by the Rating Agencies, those unsolicited ratings could have an adverse effect on the value of the Notes. For the avoidance of doubt and unless the context otherwise requires, any reference to "**ratings**" or "**rating**" in this Prospectus is to the ratings assigned by the specified Rating Agencies only.

In the event that a rating initially assigned to the Rated Notes is subsequently lowered or withdrawn for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to such Notes and the market value of such Notes is likely to be adversely affected.

In addition, the rating criteria used by the Rating Agencies to assign a rating to the Rated Notes may be amended by the Rating Agencies from time to time. Following amendments to the relevant rating criteria by a Rating Agency applicable to a Swap Agreement, the Issuer, each relevant Swap Counterparty and the Note Trustee may agree to amend and restate the relevant Swap Agreements in order to implement the new rating criteria so as to maintain the ratings then assigned to the Rated Notes. Such amendments may be prejudicial to the interests of one or more than one Class of noteholders.

The Class D Notes and the Class S Notes shall not be rated.

2.15 ***Ratings confirmation in relation to the Notes in respect of certain actions***

A Rating Agency Confirmation that any action proposed to be taken by the Issuer, the Note Trustee or any other of the Transaction Parties will not have an adverse effect on the then current rating of the Notes does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to the Noteholders.

While entitled to have regard to the fact that the Rating Agencies may have confirmed that the then current rating of the relevant Class of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Note Trustee, the other Transaction Parties or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Note Trustee, the other Transaction Parties or any other person whether by way of contract or otherwise.

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

Certain Rating Agencies have indicated that they will no longer provide Rating Agency Confirmations as a matter of policy. To the extent that a Rating Agency Confirmation cannot be obtained, whether or not a proposed action will ultimately take place will be determined in accordance with the provisions of the relevant Transaction Documents and specifically the relevant modification and waiver provisions.

2.16 ***Offeror as Noteholder***

LTSB will be the initial purchaser of the Notes and may dispose of, subject to as set out in the *Regulatory Disclosure* section, the whole or the majority of the Class A1 Notes and the Class A2 Notes and may in its discretion retain the Class B Notes, the Class C Notes and the Class S Notes. The Offeror shall, at all times, retain and hold the Class D Notes. For so long as any Notes are held by the Offeror, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). The Offeror's interests, with respect to the holding of such Notes, may be different from that of other Noteholders to the extent there are other Noteholders. So long as the Offeror continues to hold any Notes, in the exercise of the rights to which it is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself and its Affiliates. Such interests of the Offeror may conflict with the interests of other Noteholders.

2.17 ***Book-Entry Interests***

Unless and until Individual Note Certificates are issued in exchange for the Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of the Notes under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

A nominee of the Common Safekeeper will be considered the registered holder of the Class A2 Notes as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of the Global Notes under the Trust Deed while the Class A2 Notes are represented by the Global Notes. A nominee of the Common Depositary will be considered the registered holder of the Class A1 Notes, the Class B Notes and the Class C Notes as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of the Global Notes under the Trust Deed while the Class A1 Notes, the Class B Notes and the Class C Notes are represented by the Global Notes. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of Euroclear and Clearstream, Luxembourg and, if such person is not a participant in such entities, on the procedures of the participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent to the Common Safekeeper in the case of the Global Notes relating to the Class A2 Notes and to the Common Depositary in the case of the Global Notes related to the Class A1 Notes, the Class B Notes and the Class C Notes. Upon receipt of any payment from the Principal Paying Agent, Euroclear and Clearstream, Luxembourg, as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. The Issuer expects that payments by participants or indirect payments to owners of Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is the case with the securities held for the accounts of customers registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Note Trustee, the Principal Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to such Book-Entry Interests.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Individual Note Certificates are issued in accordance with the relevant provisions described herein under "*Terms and Conditions of the Notes*" below. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Note Trustee, the Principal Paying Agent, the Registrar or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and may hinder the ability of the Noteholder to resell such Notes because some investors may be unwilling to buy Notes that are not in physical form.

Certain transfers of the Rated Notes or interests therein may only be effected in accordance with, and subject to, certain transfer restrictions and certification requirements.

2.18 ***Interest Payments and Principal Payments on the Rated Notes are subordinated to certain other obligations of the Issuer***

Payments in respect of the Rated Notes rank junior to certain other payment obligations of the Issuer. Although the Issuer expects that the payments under the loans in the Collateral Portfolio will suffice for the Issuer to be able to pay all amounts payable in priority to the Rated Notes (including certain fees, expenses and other liabilities of the Issuer) and to pay all amounts due in respect of the Rated Notes, there is no assurance that this will be the case. In such instance the Issuer could be left with insufficient funds to pay the full amount of interest payments or principal payments due on the Rated Notes, as the case may be. Please note however that the Issuer may utilise amounts standing to the credit of the Reserve Account and amounts drawn under the Liquidity Facility Agreement to cover revenue shortfalls.



### 3. **Risks relating to the Collateral Portfolio**

#### 3.1 *The Collateral Portfolio*

This Prospectus does not contain any information regarding the individual Collateral Loans or Related Security (if any) which form the Collateral Portfolio, on which the Notes will be ultimately secured. Neither the Issuer nor the Arranger or any other party is under any obligation to provide any information with respect to the Borrowers under individual Collateral Loans.

None of the Issuer, the Arranger or the Lead Manager has made any investigation into the Borrowers of the Collateral Loans. The value of the Collateral Portfolio may fluctuate from time to time. None of the Issuer, the Offeror, the Note Trustee, the Arranger, the Lead Manager, the Collateral Administrator, the Cash Administrator, any Swap Counterparty, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, any Agent or any of their Affiliates are under any obligation to maintain the value of the Collateral Loans at any particular level. None of the Issuer, the Offeror, the Note Trustee, the Arranger, the Lead Manager, the Collateral Administrator, the Cash Administrator, any Swap Counterparty, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, any Agent or any of their Affiliates has any liability to the Noteholders as to the amount or value of, or any decrease in the value of, the Collateral Loans from time to time.

Prospective investors should also be aware that although certain characteristics of the Collateral Portfolio are set forth in the section below entitled *Collateral Portfolio*, those characteristics are only applicable as at the Issue Measurement Date (unless otherwise specified therein). The composition of the Collateral Portfolio will vary over time due to, *inter alia*, Collateral Loans, Further Advances and Unfunded Drawings becoming part of the Collateral Portfolio during the Replenishment Period, repayment and prepayment under the relevant Collateral Loan, release, enforcement or changes to the Related Security which may arise due to actions taken by the Offeror in respect of such Related Security in accordance with its normal business practice acting as a reasonable and prudent lender of SME loans (as to which see below – "*Transfer of Collateral Loans to the Issuer and Declaration of Trusts in respect of Related Security*"). As a result, the characteristics of the Collateral Portfolio set forth in the Prospectus are not necessarily indicative of the characteristics of the Collateral Portfolio at any subsequent time.

The primary remedy of the Issuer against the Offeror if any of the asset representations and warranties made by the Offeror under the Portfolio Offer Deed is materially breached or proves to be materially untrue as at the Issue Date or any Addition Date shall be to require the Offeror to repurchase any relevant Collateral Loan and the Issuer's beneficial interest in any Related Security. There can be no assurance that the Offeror will have the financial resources to honour such obligations under the Portfolio Offer Deed. This may affect the quality of the Collateral Loans and any Related Security in the Collateral Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

Related Security may be taken by the Offeror in relation to some Collateral Loans the Benefit of which will not be transferred to the Issuer pursuant to the Portfolio Offer Deed. Instead, the Offeror will (i) declare a trust for the benefit of the Issuer and itself (each as a beneficiary), in relation to their respective interests in the All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests and (ii) declare a trust for the benefit of the Issuer absolutely in respect of the Other Related Security, pursuant to the Declaration of Trusts. In relation to Related Security that takes the form of an All Moneys Security (in that such security deed purports to secure the repayment of all present and future sums that may be advanced by the Offeror to the relevant Borrower, including sums that do not constitute a Collateral Loan as well as securing the repayment of the relevant Collateral Loan), such All Moneys Security may be enforceable on the occurrence of a default by a Borrower either under the Collateral Loan or any Associated Debt secured by the same All Moneys Security and therefore the decision to enforce in relation to such security may be outside the control of the trustee. Upon enforcement of any All Moneys Security, however, the Offeror, in its capacity as trustee, will distribute from the enforcement proceeds all available amounts to the Issuer and the Offeror in respect of any applicable Collateral Loan on a *pro rata* basis.

### 3.2 ***Nature of the Collateral Loans***

The Collateral Loans will be subject to credit, liquidity, interest rate risks, general economic conditions, operational risks, structural risks, the condition of financial markets, political events, developments or trends in any particular industry, changes in prevailing interest rates and periods of adverse performance which may have an adverse effect on the ability of Borrowers to make payments on the Collateral Loans and which, in turn, may adversely affect the payments on the Notes and the interests of the Noteholders.

Borrowers may default on their obligations under the Collateral Loans. Such defaults may occur for a variety of reasons. In addition to the financial conditions of the Borrowers, various other factors influence small and medium-sized enterprise loan delinquency rates, default rates, prepayment rates, the frequency with which security is enforced and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates on floating rate loans may adversely affect Borrowers' ability to pay interest or repay principal on their Collateral Loans.

The Issuer is further subject to the risk of insufficiency of funds on any Note Payment Date as a result of payments being made late by Borrowers. This risk is addressed in respect of the Rated Notes by the provision of a liquidity facility provided to the Issuer by the Liquidity Facility Provider as described in the section entitled *Credit Structure – Liquidity Facility*.

Collateral Loans included in the Collateral Portfolio which comply with the Eligibility Criteria on the Issue Date but which subsequently cease to comply with the Eligibility Criteria may not be removed from the Collateral Portfolio and Additional Collateral Loans which comply with the Replenishment Criteria on the Addition Date but which subsequently cease to comply with the Eligibility Criteria or Replenishment Criteria may not be removed from the Collateral Portfolio.

Certain Collateral Loans in the Collateral Portfolio may be repayable on an interest-only basis. Where the Borrower is only required to pay interest during the term of the Collateral Loan, with the Aggregate Principal Balance being repaid in a lump sum at the end of the term, the ability of such a Borrower to repay such Aggregate Principal Balance at maturity without resorting to the sale of any Related Security will depend on, *inter alia*, such Borrower's ability to refinance such debt, which will, in turn, depend on the financial condition of the Borrower and general economic conditions at the time. If a Borrower cannot repay an interest-only Collateral Loan at maturity, this may reduce or adversely affect repayments on the Notes.

Moreover, in the case of Borrowers who are individuals, their ability to repay amounts owing under Collateral Loans (whether or not interest-only) may be adversely affected by their personal circumstances (for example, unemployment, illness, divorce or other similar factors).

In addition, the terms of certain Loan Agreements contain a clause which triggers a cross default by the Borrower under such Loan Agreement if there is a default by such Borrower to pay when due any indebtedness owed by such Borrower to the Offeror. As a result, default by a Borrower under the Associated Debt may give rise to a default under the Loan Agreement.

### 3.3 ***Transfer of Collateral Loans to the Issuer and Declaration of Trusts in respect of Related Security***

The Portfolio Offer Deed provides that the Offeror's Benefit under Collateral Loans will be transferred by the Offeror to the Issuer by way of an unnotified equitable assignment on the Issue Date. Upon the occurrence of an Assignment Notification Event, the Borrowers under the Collateral Loans will be given notice of the equitable assignment of the Collateral Loans to the Issuer. Prospective investors should note that the equitable assignment of the Collateral Loans will not be perfected as a legal assignment.

There are certain consequences under English law of the Borrower not receiving notice of assignment of the Collateral Loans. As long as no notification of the assignment has taken place,

any payments made by the Borrowers under the Collateral Loans must continue to be made to the Offeror and the Offeror can give such Borrower a good discharge for repayment upon the Offeror receiving the relevant amounts from such Borrower. A bona fide purchaser for value without notice of any of the interests of the Issuer might obtain a good title to a Collateral Loan free of any interest of the Issuer. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Offeror of its contractual obligations or fraud, negligence or mistake on the part of the Offeror or the Issuer or their respective personnel or agents. As between any Borrower and the Issuer, if the Offeror were to modify the terms of a Collateral Loan, the revised terms would apply and the Issuer would only have recourse against the Offeror for breach of contract or breach of trust. In addition, until notice of the assignment is given to Borrowers, equitable or independent set-off rights may accrue in favour of the Borrower against its obligation to make payments to the Offeror under the relevant Loan Agreement. Once notice has been given to the Borrowers of the assignment of the Collateral Loans to the Issuer, independent set-off rights which a Borrower has at law against the Offeror (such as, for example, set-off rights associated with Borrowers holding deposits with the Offeror) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. However, set-off rights arising under equitable set-off (which are set-off claims arising out of transactions closely connected with the Collateral Loan) will not be affected by that notice and will continue to exist (as to which see also *Set-off* below).

If any of the risks described above were to occur then the realisable value of the Collateral Loans may be negatively affected.

Because the notice being given is a notice of equitable assignment only, the Issuer would not itself be able to enforce that Borrower's obligations under a Collateral Loan but would have to join the Offeror as a party to any legal proceedings. Accordingly, under the Portfolio Offer Deed, the Offeror will grant to the Issuer and the Note Trustee a power of attorney to give them the power to do all further things and take all necessary action in the name of the Offeror in certain circumstances upon the occurrence of an Assignment Notification Event. See further the section entitled "*Portfolio Offer Deed and Declaration of Trusts*".

Prospective investors should be aware that, because the assignment of the Collateral Loans under the Portfolio Offer Deed will not be perfected as a legal assignment upon the occurrence of an Assignment Notification Event, the disposal of the Collateral Loans by the Note Trustee (or any receiver appointed by it) to a third party would be in respect of the Issuer's equitable entitlement in the Collateral Loans only. This could adversely affect the ability of the Note Trustee or any receiver appointed by it to sell the Collateral Loans.

In addition, the Offeror, having taken legal and tax advice, will represent in the Portfolio Offer Deed that no stamp duty, registration, stamp duty reserve tax or similar tax will be paid on, in relation to, or in respect of any agreement or transaction effected by or pursuant to, the Portfolio Offer Deed. The Offeror will undertake to indemnify the Issuer for any losses incurred by the Issuer if the representation proves to be untrue as at the Issue Date and will, in certain circumstances, make advances under the Offeror Indemnity Loan Facility Agreement to the Issuer to secure the Offeror's obligations in this respect. Please see "*Credit Structure – Offeror Indemnity Loan Facility*".

Pursuant to the Declaration of Trusts, the Offeror will (i) declare a trust for the benefit of the Issuer and itself (each as a beneficiary), in relation to their respective interests (which in respect of the Issuer, shall correspond to its beneficial interest in the relevant Collateral Loan) in the All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests and (ii) declare a trust for the benefit of the Issuer absolutely in respect of the Other Related Security. Under the Declaration of Trusts, the Offeror (acting as trustee) will (in respect of All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests) take joint instructions from both beneficiaries and (in respect of Other Related Security) take instructions solely from the Issuer, in each case in respect of any actions to be taken by it in respect of the Related Security. The beneficiaries will agree in the Beneficiaries Deed that, prior to the occurrence of an Assignment Notification Event, they will give consent to a proposed course of action in relation to the Related Security by the Offeror (acting as trustee)

so long as such action is in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans. Following the occurrence of an Assignment Notification Event (which for these purposes only, does not include a Trust Power of Attorney Event), to the extent that (i) the Issuer (as assignee of the relevant Collateral Loans) wishes certain actions to be taken in respect of the Related Security in respect of such Collateral Loans, it would be necessary for the Offeror (in its capacity as the co-beneficiary under the Declaration of Trusts) to give its consent, the Offeror has the discretion whether or not to give such consent (*provided that* such consent shall not be unreasonably withheld and *provided further that*, if such proposed actions are inconsistent with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans, and the Offeror withheld its consent, such withholding of consent shall not be considered as unreasonable); and (ii) the Offeror (in its capacity as the co-beneficiary under the Declaration of Trusts) wishes certain actions to be taken in respect of the Related Security in respect of any Collateral Loans, the Issuer will give consent to such proposed actions so long as such actions are in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans. In respect of Other Related Security, the Issuer will agree in the Portfolio Offer Deed that, prior to the occurrence of a Trust Power of Attorney Event, the Issuer (i) will give consent to a proposed course of action in relation to the Other Related Security by the Offeror (acting as trustee) so long as such action is in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans and (ii) will not give instructions to the Offeror (in its capacity as the trustee) to the extent that such instructions are inconsistent with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans.

Following the occurrence of a Trust Power of Attorney Event, the Issuer will be entitled to use the power of attorney given to it by the Offeror (in the capacity as trustee) under the Declaration of Trusts to do all further things and take all necessary actions in relation to the Related Security in the name of the Offeror (as trustee under the Declaration of Trusts) to the extent that the Offeror (as trustee under the Declaration of Trusts) fails to do such things or take such actions. See further the section entitled *Portfolio Offer Deed and Declaration of Trusts*.

Prospective investors should be aware that, due to the nature of the trust arrangement in respect of the Related Security, the Issuer will not have any direct interest in the Related Security. The Related Security will not be assigned legally or equitably or otherwise transferred to the Issuer and, whilst notice of the Issuer's interest in the Collateral Loans will be given upon the occurrence of an Assignment Notification Event, the legal title to the Related Security and the rights in respect of the Related Security will remain with the Offeror as trustee. Prior to the occurrence of a Trust Power of Attorney Event, the Issuer will rely on the Offeror (acting a trustee under such Declaration of Trusts) to take actions in respect of the Related Security (including, without limitation, actions in relation to release, enforcement or changes to the Related Security) in accordance with its normal business practice acting as a reasonable and prudent lender of SME loans and would not be able to give instructions to the Offeror (acting as trustee under such Declaration of Trusts) to the extent that such instructions are inconsistent with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans.

None of the Issuer or the Note Trustee has any legal interest in the Related Security and the Offeror will not be, and will not be deemed to be, acting as the agent or trustee of the Issuer in connection with the exercise of, or the failure to exercise, any of its rights or powers arising under or in connection with its holding of any Related Security (although the Offeror will be the trustee in respect of the Related Security).

The Declaration of Trusts excludes any power of the Offeror to retire as trustee or to appoint any additional trustee. The Issuer will be dependent upon the Offeror's performance of its obligations under the Declaration of Trusts in order to receive any enforcement proceeds due from Borrower under Related Security. Any such enforcement proceeds in relation to the Related Security are held by the Offeror (as trustee) in accordance with the Declaration of Trusts. In addition, due to the nature of the trust arrangement in respect of the Related Security, any disposal of the Collateral Loans to a third party would be subject to the trust arrangement in respect of the Related Security.

### 3.4 ***Market Value of Collateral Loans***

The market value of the Collateral Loans will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry and the financial condition of the borrowers or guarantors, as the case may be, of the Collateral Loans. Typically, loans to small and medium-sized enterprise borrowers are not considered to be investment grade and that reflects a greater possibility that adverse changes in the financial condition of a borrower or guarantor or in general economic conditions or both may impair the ability of the relevant Borrower to make payments of principal or interest or the relevant guarantor to make payments under its guarantee. Such investments may be speculative.

The financial markets periodically experience substantial fluctuations. No assurance can be given that the conditions giving rise to such price fluctuations and limited liquidity will not occur, subsist or become more acute following the Issue Date. A decrease in the market value of the Collateral Loans would adversely affect the proceeds of sale that could be obtained by the Issuer or the Note Trustee upon the sale of the Collateral Loans, which could affect the amount received by the Issuer and could ultimately affect the ability of the Issuer to pay in full or redeem the Notes.

### 3.5 ***Set-off***

In the event of the insolvency of the Offeror or a Borrower, a Borrower which also has a deposit with the Offeror or to which the Offeror owes other obligations may attempt to satisfy its payment obligation in respect of the Collateral Loan by setting off its deposit or other obligations against such payment obligation.

Some of the Collateral Loans contained in the Collateral Portfolio are subject to provisions contained in the relevant Loan Agreement pursuant to which the relevant Borrower expressly agrees to make payments in respect of the Collateral Loans thereunder without set-off or counterclaim. Other Loan Agreements do not contain such provisions.

If (outside of an insolvency) a Collateral Loan either (a) does not contain an agreement or undertaking to pay without set off or (b) contains an agreement or undertaking to pay without set off, but such provision were determined to be unenforceable, then in either case a Borrower which also had a deposit with the Offeror or to which the Offeror owes other obligations might be able to set off such deposit or such other obligations against its obligations in respect of a Collateral Loan, in which case Principal Receipts and/or Interest Receipts in respect of such Collateral Loan could be diminished and consequently Noteholders could suffer a loss. This will be mitigated by (i) the Offeror's option to pay any Set-Off Amount to the Issuer, (ii) the use of amounts drawn from the Offeror Indemnity Loan Facility standing to the credit of the Cash Collateral Account or (iii) the Issuer's ability, in the event the Offeror elects not to make such payment pursuant to the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount, to write down the Principal Amount Outstanding of the Class D Notes by an amount corresponding to the Set-Off Amounts owed to the Issuer by the Offeror. Please see "*Credit Structure – Cash Collateral*".

### 3.6 ***Confidentiality; Limitations on Available Information***

The Offeror may have been required to enter into one or more confidentiality agreements regarding certain information received with respect to the Collateral Loans, the Borrowers thereof and/or certain other parties relating to such Collateral Loans. As a result, the ability of the Offeror, the Issuer, or the Collateral Administrator on behalf of the Issuer or the Note Trustee, to provide certain information to other Transaction Parties or Noteholders regarding the Collateral Loans may be restricted or limited.

### 3.7 ***Concentration Risk***

Although no significant concentration with respect to any particular Borrower is expected to exist at the Issue Date (as to which see *Collateral Portfolio – Key Features of the Collateral Portfolio*), the concentration of the Collateral Portfolio in any one Borrower would subject the

Notes to a greater degree of risk with respect to defaults by such Borrower, and the concentration of the Collateral Portfolio in any one industry or region could subject the Notes to a greater degree of risk with respect to economic downturns relating to such industry or region. During the Replenishment Period Additional Collateral Loans may be added to the Collateral Portfolio and, subject to the Replenishment Criteria, this may alter the concentration of the Collateral Portfolio. In addition, Further Advances and Unfunded Drawings may become part of the Collateral Portfolio and this may alter the concentration of the Collateral Portfolio. Prepayments of Collateral Loans and the sale of Defaulted Collateral Loans may also alter the concentration of the Collateral Portfolio. See further the section entitled "*Collateral Portfolio*".

#### 4. **English Law Security and Insolvency Considerations**

The Issuer will enter into the Trust Deed pursuant to which it will grant security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of any Security impaired.

In particular, the ability to realise the security granted by the Issuer may be delayed if an administrator is appointed or in the context of a company voluntary arrangement in respect of the Issuer. In this regard, it should be noted that:

- (a) in general, an administrator may not be appointed in respect of a company if an administrative receiver is in office. Amendments were made to the Insolvency Act 1986 in September 2003 which restrict the right of the holder of a floating charge to appoint an administrative receiver, unless an exception applies. Significantly, one of the exceptions allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. While it is anticipated that the requirements of this exception will be met in respect of the Trust Deed, it should be noted that the Secretary of State for Business, Innovation and Skills may by regulation modify the capital markets exception and/or provide that the exception shall cease to have effect; and
- (b) under the Insolvency Act 1986 (as amended by the Insolvency Act 2002), certain "small" companies (which are defined by reference to certain financial and other tests) are entitled to seek protection from their creditors for a limited period for the purposes of putting together a company voluntary arrangement. The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a small company. However, certain companies are excluded from the optional moratorium provisions, including a company which is party to certain transactions in the capital markets and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business, Innovation and Skills may by regulation modify these exceptions.

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

While the Transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

Whether a fixed security interest expressed to be created by the Trust Deed will be upheld under English law as a fixed security interest rather than floating security will depend, among other things, on whether the Note Trustee has the requisite degree of control under the Transaction Documents over the Issuer's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Note Trustee in practice. In particular, it is likely that the Note Trustee may not exert sufficient control over the accounts of the Issuer for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Note Trustee is not deemed to have sufficient control as may be the case in this transaction.

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing the Issuer to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of the Issuer's business. Any assets acquired by the Issuer after the Issue Date (including assets acquired as a result of the disposition of any other assets of the Issuer) will also be subject to the floating charge unless they are subject to the fixed charges mentioned in this section.

The floating charge created by the Trust Deed allows the Note Trustee to appoint an administrative receiver of the Issuer and thereby prevent the appointment of an administrator of the Issuer by one of the Issuer's other creditors. An appointment of an administrative receiver by the Note Trustee under the Trust Deed will not be prohibited by Section 72A of the Insolvency Act 1986 as the appointment will fall within the exception set out under Section 72B of the Insolvency Act 1986 (First Exception: Capital Markets). Therefore, in the event that enforcement proceedings are commenced in respect of amounts due and owing by the Issuer, the Note Trustee will be entitled to control those proceedings. However, see "*Risk factors — Other Legal and Regulatory Risks — Change of law*" relating to the appointment of administrative receivers.

#### ***Liquidation expenses***

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of *Re Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

## **5. Other Legal and Regulatory Risks**

### **5.1 *Increased Regulation***

In the United Kingdom and elsewhere, recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and there is increased political and regulatory scrutiny of the banking industry and operations of the financial institutions.

The UK Government, the FSA and other regulators in the United Kingdom or overseas may intervene further in relation to the strengthening of the liquidity standards in the UK and global banking system and in relation to any areas of industry risk identified. Increased regulation and regulatory intervention may lead to requests from regulators to carry out wide ranging reviews

and investigations. It is uncertain how the more rigorous climate will impact financial institutions and the matters contemplated by this Prospectus.

## 5.2 ***Banking Act 2009***

If an instrument or order were to be made under the Banking Act 2009 (the "**Banking Act**") in respect of a UK-incorporated institution with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 ("**FSMA**") (such as the Offeror, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the Issuer Account Bank, the Collateral Administrator and the Cash Administrator) (each a "**relevant entity**"), such instrument or order may, among other things, affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events. As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes and may result in a change in the contractual terms applicable to the Notes without the consent of the Noteholders. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred. As at the date of this Prospectus, none of the HM Treasury, the Bank of England or the UK Financial Services Authority (the "**FSA**" and, together with HM Treasury and the Bank of England, the "**Authorities**") have made an instrument or order under the Banking Act in respect of the relevant entities referred to above and there has been no indication that the Authorities will make any such instrument or order, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made.

## 5.3 ***Change of law***

The structure of the transaction and, *inter alia*, the issue of the Notes and the ratings which are to be assigned to the Notes are based on the law and administrative practice in effect as at the date of this Prospectus as it affects the parties to the transaction and the Collateral Portfolio, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to such law (including any change in regulation which may occur without a change in primary legislation) and practice or tax treatment after the date of this Prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

## 5.4 ***European Monetary Union***

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in the European economic and monetary union and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes denominated in Sterling may become payable in euro; (ii) law may allow or require the Notes denominated in Sterling to be redenominated into euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes denominated in Sterling or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors in the Notes.

## 5.5 ***Securitisation Company Tax Regime***

The Taxation of Securitisation Companies Regulations 2006 (the "**TSC Regulations**") were made under section 84 of the Finance Act 2005 on 11 December 2006 (and now take effect under Chapter 4, Part 13 of the Corporation Tax Act 2010). The TSC Regulations deal with the corporation tax position of securitisation companies such as the Issuer with effect for periods of



account beginning on or after 1 January 2007. The TSC Regulations have been amended by, in particular, the Taxation of Securitisation Companies (Amendment) Regulations 2007, which came into force on 27 December 2007 (and have effect for periods beginning on or after 1 January 2007).

If the TSC Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. Based on advice received, the Issuer expects to be taxed under the special tax regime for which provision is made by the TSC Regulations.

Investors should note, however, that the TSC Regulations are in short-form and it is expected that advisors will rely significantly upon guidance from the UK tax authorities when advising on the scope and operation of the TSC Regulations including whether any particular company falls within the new regime.

Prospective Noteholders should note that if the Issuer did not fall to be taxed under the new regime provided for by TSC Regulations then its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse affect on its ability to make payments to the Noteholders.

#### 5.6 *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each member state of the European Union (a "**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 limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35% (unless during that transitional period they elect to provide information in accordance with the EU Savings Directive). 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. Belgium has replaced the withholding tax system with a regime of exchange of information to the Member State of residence as from 1 January 2010.

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

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

#### 5.7 *Contractual Priorities of Payments*

The validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Court of Appeal in *Perpetual Trustee Co Ltd v BNY Corporate Trustee Services Ltd* [2009] EWCA Civ 1160, dismissed this argument and upheld the validity of similar priorities of payment, stating that the anti-deprivation principle was not breached by such provisions.

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s motion for summary judgement on the basis that the effect was that the provisions do infringe the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". The English Supreme Court granted leave to appeal the Court of Appeal's decision. In New York however, whilst leave to appeal was granted, the case was settled before an appeal was heard. Notwithstanding the New York settlement, the appeal by one of the appellants, Lehman Brothers Special Financing Inc., against two of the respondents, Belmont Park Investments Pty and BNY Corporate Trustee Services Ltd, in the English courts was heard in early March 2011 and the judgement is awaited. Therefore concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision either in England or New York, may adversely affect the Issuer's ability to make payments on the Notes. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

#### 5.8 ***Pensions Liabilities***

*In Re Nortel GmbH and related companies; Re Lehman Brothers International (Europe) (in administration) and related companies [2010] EWHC 3010*, Briggs J held that Contribution Notices ("CNs") and Financial Support Directions ("FSDs") issued by the Pensions Regulator pursuant to its powers contained in the Pensions Act 2004 (which grants the Pensions Regulator wide powers to extend defined benefit pension liabilities by issuing FSDs and CNs) should be treated as an administration expense, rather than as an ordinary unsecured debt. As a result, pensions liabilities such as CNs and FSDs arising as a result of the Pension Regulator's exercise of its powers would have super senior status in an administration, ranking in priority to the claims of all creditors other than those secured by a fixed charge. Permission has been given for the matter to be appealed to the Court of Appeal. In the event that the aforementioned ruling is upheld there is a remote possibility that pension obligations of certain Borrowers may give rise to such super senior status.

#### 6. **Projections, Forecasts and Estimates**

Any projections, forecasts and estimates provided to prospective purchasers of the Notes are forward looking statements. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialise or will vary significantly from actual results. Accordingly, the projections are only estimates. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the Collateral Portfolio, differences in the actual allocation of the Collateral Portfolio among asset categories from those assumed, mismatches between the timing of accrual and receipt of Interest Receipts and Principal Receipts from the Collateral Portfolio, and the effectiveness of the relevant Swap Agreement, among others.

None of the Issuer, the Offeror, the Arranger, the Lead Manager, the Collateral Administrator, the Cash Administrator, the Note Trustee, the Interest Rate Swap Counterparty, the Currency Swap Counterparty, the Agents or any of their respective Affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

For the purposes of this section and elsewhere in this prospectus, "**Affiliate**" means in relation to any party, a subsidiary of that party or a holding company of that party or any other subsidiary of such holding company.

#### 7. **Risks relating to Lloyds Banking Group**

##### 7.1 ***Lloyds Banking Group's businesses are subject to substantial regulation and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy***

*could have a significant material adverse effect on Lloyds Banking Group's operating results, financial condition and prospects.*

Lloyds Banking Group's businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which Lloyds Banking Group expects to continue for the foreseeable future. The UK Government, the FSA and other regulators in the UK, the European Union or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect Lloyds Banking Group. Future changes are difficult to predict and could materially adversely affect Lloyds Banking Group's business. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of Lloyds Banking Group and could materially adversely affect Lloyds Banking Group's businesses.

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

- (a) general changes in government, central bank or regulatory policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which Lloyds Banking Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- (b) external bodies applying or interpreting standards or laws differently to those applied by Lloyds Banking Group;
- (c) changes in competition and pricing environments;
- (d) further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation; and
- (e) expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership.

Lloyds Banking Group faces increased political and regulatory scrutiny as a result of Lloyds Banking Group's perceived size and systemic importance following the acquisition of HBOS plc and its subsidiary and associated undertakings (the "**HBOS Group**"). Such scrutiny may focus on, or include review of, the historical operations of the HBOS Group as well as the characteristics of the enlarged Lloyds Banking Group. In clearing the acquisition of HBOS Group without a reference to the UK Competition Commission, the Secretary of State noted that there were some competition concerns identified by the Office of Fair Trading ("**OFT**") in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. The OFT has also reiterated that it will consider whether to refer any banking markets to the Competition Commission if it identifies any prevention, restriction or distortion of competition.

Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase Lloyds Banking Group's costs, impede the efficiency of their internal business processes, limit their ability to pursue business opportunities, or diminish their reputation. Any of these consequences could have a material adverse effect on Lloyds Banking Group's operating results, financial condition and prospects.

From April 2011, the FSA is commencing an internal reorganisation as a first step in a process towards the formal transition of regulatory and supervisory powers from the FSA to the new Financial Conduct Authority ("**FCA**") for conduct of business supervision and the Prudential Regulatory Authority ("**PRA**") for capital and liquidity supervision in 2012. Until this time the responsibility for regulating and supervising the activities of the Lloyds Banking Group and its subsidiaries will remain with the FSA. In addition, from 2011, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority as new EU Supervisory Authorities are likely to have greater influence on regulatory approaches across the EU. These could lead to changes in how Lloyds Banking Group is regulated and supervised on a day-to-day basis.

Amendments to a number of EU directives are also being considered, including the Market Abuse Directive, Markets in Financial Instruments Directive, Capital Requirements Directive, E-Money Directive and the Undertakings for Collective Investment in Transferable Securities ("UCITS") Directive.

Other notable regulatory initiatives include the Dodd-Frank Act in the US, which affects the financial services industry by addressing, among other issues, systemic risk oversight, bank capital standards, the liquidation of failing systemically significant financial institutions, over-the-counter derivatives, the ability of banking entities to engage in proprietary trading activities and invest in hedge funds and private equity (these restrictions are known as the 'Volcker Rule'), consumer and investor protection, hedge fund registration, securitisation, investment advisors, shareholder 'say on pay', the role of credit-rating agencies, and more.

The details of these regulations will depend on the final regulations ultimately adopted by various US regulatory authorities in 2011. Lloyds Banking Group is currently assessing the impacts of these regulatory developments and will participate in the consultation and calibration processes to be undertaken by the various regulatory bodies during 2011. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that Lloyds Banking Group conducts business, although uncertainty remains about the details, impact and timing of these reforms. Lloyds Banking Group continues to work closely with the regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to Lloyds Banking Group and its stakeholders.

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

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

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

Lloyds Banking Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. Lloyds Banking Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when Lloyds Banking Group believes that it has no liability. Lloyds Banking Group may also do so when the potential consequences of failing to prevail would be

disproportionate to the costs of settlement. Furthermore, Lloyds Banking Group may, for similar reasons, reimburse counterparties for their losses even in situations where Lloyds Banking Group does not believe that it is legally compelled to do so.

Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable. Failure to manage these risks adequately could impact Lloyds Banking Group adversely and materially, both financially and reputationally. The financial impact of legal and regulatory risks might be considerable but are difficult to quantify. Amounts eventually paid may exceed the amount of provisions set aside to cover such risks.

Companies within Lloyds Banking Group are responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme ("FSCS") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Going forward, further provisions in respect of these costs are likely to be necessary. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on the results of operations and financial condition of Lloyds Banking Group.

## CREDIT STRUCTURE

*The summary below describes the principal features of the transaction. The summary must be read in conjunction with, and is qualified entirely by, the detailed information presented elsewhere in this Prospectus. The structure of the credit arrangements for the proposed issue of the Notes may be summarised as follows:*

### **Collateral Loan Interest Rates**

The interest rate of each Collateral Loan is either fixed or floating.

### **Cash Collection**

All payments by the Borrowers under the Collateral Loans are directly debited on a regular basis in accordance with the relevant Loan Agreements. Interest on such Collateral Loans is payable in arrear. Until an Assignment Notification Event has occurred all payments made by Borrowers will be credited to one or more accounts of the Offeror (in such capacity, the "**Collection Account Bank**"), which are administered by the Offeror (the "**Collection Accounts**").

The Offeror (or the Cash Administrator on its behalf) shall, on a daily basis, transfer all amounts expected to be received on such date pursuant to the terms of the relevant Loan Agreements which would be allocable to the Collateral Loans, from the relevant Collection Account to the Interest Account, in respect of Interest Receipts, and to the Principal Account, in respect of Principal Receipts.

On each Monthly Reconciliation Date, the Cash Administrator (on behalf of the Offeror) shall determine (A) the amounts (in respect of Interest Receipts and Principal Receipts) actually received from Borrowers during the Monthly Period allocable to Collateral Loans and (B) the amounts transferred from the Collection Accounts to the Interest Account and the Principal Account, as applicable, during the Monthly Period (the "**Monthly Reconciliation**"). In the event that the value of (B) is greater than the value of (A), the difference (being the "**Reconciliation Amount**") shall be transferred from the Interest Account and/or the Principal Account, as applicable, to the relevant Collection Account on such Monthly Reconciliation Date (or vice versa if the value of (A) is greater than the value of (B)).

The Cash Administrator shall determine the portion of the Reconciliation Amount allocable to Principal Receipts, which shall be paid to or, as the case may be, from the Principal Account, and the portion allocable to Interest Receipts, which shall be paid to or, as the case may be, from the Interest Account, subject always to the availability of funds.

"**Monthly Period**" means, for each Monthly Reconciliation Date, the preceding calendar month provided that the first Monthly Period shall commence on the Issue Date.

"**Monthly Reconciliation Date**" means the 6th calendar day of each calendar month and the first Monthly Reconciliation Date shall be August 2011.

If at any time the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Collection Account Bank are assigned a rating less than:

- (a) Baa3 by Moody's;
- (b) BBB- by Fitch; or
- (c) if any such rating is withdrawn,

the Offeror shall, within 30 calendar days of such downgrade, designate an account at an account bank that has the IAB Required Ratings as the substitute account (the "**Substitute Collection Account**") and transfer all funds standing to the credit of the Collection Accounts in respect of Collateral Loans to such Substitute Collection Account, *provided that*, such 30 calendar day period shall not apply if, upon a downgrade of the Offeror's credit rating(s) to below the Notification Required Ratings, the Offeror has exercised its Ratings Downgrade Call Option in accordance with Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*).

## **Offeror Indemnity Loan Facility Agreement**

### *Required Tax Payment*

Pursuant to the Portfolio Offer Deed, the Offeror will represent that no stamp duty, registration, stamp duty reserve tax or similar tax will be payable on, in relation to, or in respect of any agreement or transaction effected by or pursuant to, the Portfolio Offer Deed. The Offeror will undertake to indemnify the Issuer for any losses incurred by the Issuer if the representation proves to be untrue as at the Issue Date and the Issuer is required by the Tax Authority to make such payment (the "**Required Tax Payment**"). For the avoidance of doubt, the payment by the Issuer of the Required Tax Payment will be made outside, and not be subject to, the relevant Priority of Payment.

### *Set-Off Amounts*

The Offeror shall compensate the Issuer for any amounts set-off by a Borrower in respect of the relevant Collateral Loan in an amount equal to the Issuer Share of such shortfall ("**Set-Off Amount**"). The Offeror may reimburse the Issuer for such Set-Off Amount on the Business Day following the occurrence of such shortfall, pursuant to the Portfolio Offer Deed. In the event the Offeror elects not to reimburse the Issuer in respect of a Set-Off Amount in accordance with the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount corresponding to the Set-Off Amount owed to the Issuer by the Offeror.

### *Offeror Indemnity Loan Facility*

If the Offeror's credit ratings have fallen below the Potential Set-Off Required Ratings, to secure its obligations to make payments equal to any Required Tax Payment and mitigate any Set-Off Shortfall, the Offeror has an obligation to advance by way of loan advances under the Offeror Indemnity Loan Facility Agreement, on a regular basis, Cash Collateral up to the Required Amount. Any such Cash Collateral advanced by the Offeror Indemnity Loan Facility Provider shall be transferred to the Cash Collateral Account.

The Cash Collateral may be applied by the Issuer and/or the Note Trustee (as the case may be) on any Note Payment Date as part of the relevant Available Funds of the Issuer only (i) if and to the extent that, as a result of a Borrower having invoked a right of set-off during the Note Calculation Period immediately preceding such Note Payment Date, the Issuer has not received the Issuer Share of the full amount due but unpaid in respect of any Collateral Loan(s) as a result of such set-off or the Issuer is required by the Tax Authority to pay such Required Tax Payment; and (ii) the Offeror has not paid to the Issuer an amount in relation to such shortfall or an amount equal to the Required Tax Payment by way of indemnity payment in accordance with the terms of the Portfolio Offer Deed, as described above.

If the amount equal to the aggregate value of any Cash Collateral drawn by the Issuer exceeds the Required Amount on any Note Payment Date (the "**Excess Cash Collateral**"), the Issuer shall make a principal repayment under the Offeror Indemnity Loan Facility Agreement to the Offeror in an amount equal to the Excess Cash Collateral (if applicable). Any such principal repayment by the Issuer to the Offeror of an amount equal to the Excess Cash Collateral shall be made outside of the Priority of Payments. Interest under the Offeror Indemnity Loan Facility shall be equal to the amount received by the Issuer in respect of the Cash Collateral Account during the relevant Quarterly Interest Period, which shall be paid by the Issuer outside, and not subject to, the relevant Priority of Payments.

For this purpose:

"**Cash Collateral**" means an amount of cash in Sterling drawn by the Issuer under the Offeror Indemnity Loan Facility Agreement.

"**Potential Set-Off Amount**" means, in respect of any Note Payment Date, an amount equal to the sum of all amounts in respect of each Borrower, separately, which will be the lower of:

- (a) the aggregate amount standing to the credit of each current account, savings account and/or deposit held by the Borrower of the relevant Collateral Loan(s) with the Offeror and any positive mark to market value of any derivative transactions with the Borrower; and

(b) the Funded Aggregate Principal Balance of the relevant Collateral Loan(s) with such Borrower, as reported in the relevant Investor Report to be provided by the Cash Administrator under the Administration Agreement.

**"Required Amount"** means, in respect of any Note Payment Date, an amount equal to:

- (a) zero, unless the rating of the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror falls below F1 by Fitch or P-1 by Moody's or the rating of the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror falls below A by Fitch, **provided that**, if the Offeror's long-term, unsecured, unsubordinated and unguaranteed ratings have been placed on "Ratings Watch Negative" by Fitch, the Offeror will be required to have long-term, unsecured, unsubordinated and unguaranteed ratings of at least A+ by Fitch (together the **"Potential Set-Off Required Ratings"**) or any such rating is withdrawn; or
- (b) 100 per cent. of the aggregate of the Set-Off Shortfall and the Required Tax Payment (if any), if the Offeror fails to satisfy any of the Potential Set-Off Required Ratings,

*provided that*, the **"Required Amount"** shall be zero, if all Rated Notes have been redeemed in full in accordance with the Conditions and *provided further that*, following payment of the Required Tax Payment (if any) by the Offeror to the Issuer, item (b) of the Required Amount shall be reduced by an amount equal to such Required Tax Payment.

**"Set-Off Shortfall"** means the greater of (i) zero and (ii) an amount equal to the Potential Set-Off Amount *less* the Principal Amount Outstanding of the Class D Notes.

#### **Guaranteed Investment Contract, Account Bank Agreement and Issuer Accounts**

##### *GIC*

The GIC Provider will enter into the Guaranteed Investment Contract with the Issuer. Under the GIC, the GIC Provider will agree to pay a guaranteed rate of interest determined by reference to three month LIBOR on the balance standing from time to time to the credit of the Interest Account, the Principal Account, the Reserve Account, the Liquidity Facility Stand-by Drawing Account and the Liquidity Facility Account. The amounts of interest credited to the Issuer Accounts shall form part of and be credited to the Revenue Available Funds.

The Account Bank Agreement will provide that payments may only be made from the Interest Account and/or the Principal Account other than on a Note Payment Date to satisfy amounts due to third parties (other than pursuant to the Transaction Documents) and payable in connection with the Issuer's business in accordance with the relevant Priority of Payments.

##### *Ratings of the Issuer Account Bank and the GIC Provider*

If at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the Issuer Account Bank or the GIC Provider or the long term unsecured, unsubordinated and unguaranteed debt obligations of the Issuer Account Bank or the GIC Provider are rated less than any of the IAB Required Ratings, or any such rating is withdrawn, or the Issuer Account Bank or the GIC Provider ceases to be authorised to conduct business in Issuer's jurisdiction, then the Issuer Account Bank, the GIC Provider and the Issuer will procure within thirty (30) calendar days thereafter:

- (a) in relation to the Issuer Account Bank, the transfer of the balance standing to the credit of each of the Issuer Accounts to another bank or banks approved in writing by the Note Trustee (such approval not to be unreasonably withheld or delayed) with a rating of at least the IAB Required Ratings and which is or are a bank or banks authorised to conduct business in Issuer's jurisdiction in accordance with the FSMA and which will enter into an agreement with, *inter alios*, the Issuer on substantially the same terms as the Account Bank Agreement; or
- (b) that a third party having a rating of at least the IAB Required Ratings guarantees the obligations of the Issuer Account Bank and the GIC Provider; and/or
- (c) take any other solution to maintain the then current rating of the Notes.



"**IAB Required Ratings**" means a short-term senior unsecured debt rating of P-1 by Moody's and F-1 by Fitch and a long-term senior unsecured debt rating of A by Fitch, **provided that**, if such long-term senior unsecured debt rating has been placed on "Ratings Watch Negative" by Fitch, the Issuer Account Bank or GIC Provider (as applicable) will be required to have a long-term senior unsecured debt rating of at least A+ by Fitch.

#### *Termination of the Account Bank Agreement*

The appointment of the Issuer Account Bank will terminate upon the occurrence of certain termination events (which include certain failures by the Issuer Account Bank to comply with its obligations under the Account Bank Agreement). In addition, the Issuer Account Bank may resign its appointment under the Account Bank Agreement at any time by giving to the Issuer and the Note Trustee at least sixty (60) calendar days' prior written notice, *provided always that* so long as any of the Notes are outstanding, no such resignation shall take effect until a new account bank (including the provider of a guaranteed investment contract) shall have been appointed and certain other requirements are met.

#### *Termination of the Guaranteed Investment Contract*

The appointment of the GIC Provider will terminate upon the occurrence of certain termination events (which include certain failures by the GIC Provider to comply with its payment obligations under the Guaranteed Investment Contract). In addition, the GIC Provider may resign its appointment under the Guaranteed Investment Contract at any time by giving to each of the parties to the Guaranteed Investment Contract at least sixty (60) calendar days' prior written notice, *provided always that*, no such resignation shall take effect until a replacement financial institution or institutions shall have been appointed and certain other requirements are met.

#### **The Interest Account**

The Issuer will establish on or prior to the Issue Date and maintain with the Issuer Account Bank, the interest account (the "**Interest Account**") into which the Cash Administrator on behalf of the Issuer shall credit all amounts received which have been identified as interest receipts by the Cash Administrator:

- (a) in respect of the Collateral Loans; and
- (b) from any of the other parties to the Transaction Documents.

#### **The Principal Account**

The Issuer will establish on or prior to the Issue Date and maintain with the Issuer Account Bank, the principal account (the "**Principal Account**") into which the Cash Administrator on behalf of the Issuer shall credit all amounts received which have been identified as principal receipts by the Cash Administrator:

- (a) in respect of the Collateral Loans; and
- (b) from any of the other parties to the Transaction Documents.

#### **The Reserve Account**

##### *Reserve Account*

The Issuer will establish on or prior to the Issue Date and maintain with the Issuer Account Bank the reserve account (the "**Reserve Account**").

##### *Utilising the Reserve Account*

If the Revenue Available Funds are insufficient to meet the Issuer's obligations under items (a) to (k) (inclusive) of the Revenue Priority of Payments in full (the extent to which such Revenue Available Funds are insufficient being the "**Revenue Shortfall**"), then amounts standing to the credit of the Reserve Account will be available to the Issuer to satisfy such obligations on any Note Payment Date. For the avoidance of doubt, amounts from the Reserve Account shall be utilised to meet any Revenue Shortfall prior to funds being drawn under the Liquidity Facility.

### *Replenishment of Reserve Account*

If and to the extent that the Revenue Available Funds calculated on any Note Calculation Date exceed the amounts required by the Issuer to satisfy its obligations under items (a) to (k) (inclusive) of the Revenue Priority of Payments in full, then the remaining Revenue Available Funds will be applied to replenish the Reserve Account, only to the extent that the balance on the Reserve Account does not exceed the Reserve Account Maximum Balance. See further the paragraph *Revenue Priority of Payments* in this section below.

### **The Liquidity Facility Account**

The Issuer will establish on or prior to the Issue Date and maintain with the Issuer Account Bank a bank account which shall be designated the liquidity facility account (the "**Liquidity Facility Account**"). The Liquidity Facility Account shall be debited by an amount equal to any Liquidity Facility Drawing made by the Issuer from the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement. Funds debited to the Liquidity Facility Account shall be credited to the Interest Account to be applied by or on behalf of the Issuer in accordance with the Liquidity Facility Agreement. See further the paragraph *Liquidity Facility* in this section below.

### **The Liquidity Facility Stand-by Drawing Account**

Any Liquidity Facility Stand-by Drawing made under the Liquidity Facility Agreement shall be credited to an account established on or prior to the Issue Date and maintained with the Issuer Account Bank for such purpose and which shall be designated the liquidity facility stand-by drawing account (the "**Liquidity Facility Stand-by Drawing Account**"). See further the paragraph *Liquidity Facility* in this section below.

### **The Cash Collateral Account**

The Issuer will establish on or prior to the Issue Date and maintain with the Issuer Account Bank the cash collateral account (the "**Cash Collateral Account**"). The Cash Collateral Account shall be credited with the amount of drawings under the Offeror Indemnity Loan Facility which shall be utilised by the Issuer in respect of any shortfall of funds arising as a result of set-off claimed by a Borrower or a Required Tax Payment.

### **The Swap Account, the Swap Termination Account and the Swap Collateral Account**

The Issuer will establish on or prior to the Issue Date and maintain a swap account (the "**Swap Account**") and will, pursuant to the terms of the relevant Swap Agreement, establish a swap termination account (the "**Swap Termination Account**") and a swap collateral account (the "**Swap Collateral Account**") with the Issuer Account Bank. Payments will be made into and from these accounts in the manner set out in the Interest Rate Swap Agreement and the Currency Swap Agreement, as the case may be.

### **The Note Proceeds Account**

The gross proceeds of the issue of the Notes denominated in Sterling shall be credited to a sterling account, established on or prior to the Issue Date and maintained with the Issuer Account Bank for such purpose and which shall be designated the note proceeds account (the "**Note Proceeds Account**").

### **The Euro Account**

The gross proceeds of the issue of the Notes denominated in euro shall be credited to a euro account, established on or prior to the Issue Date and maintained with the Issuer Account Bank for such purpose and which shall be designated the euro account (the "**Euro Account**").

### **Principal Deficiency Ledgers and the Allocation of Defaults**

#### *Principal Deficiency Ledgers*

Principal deficiency ledgers shall be established on behalf of the Issuer by the Cash Administrator in respect of the Class A1 Notes and the Class A2 Notes (the "**Class A PDL**"), the Class B Notes (the "**Class B PDL**") and the Class C Notes (the "**Class C PDL**" and together with the Class A PDL and the

Class B PDL, the "**Principal Deficiency Ledgers**") in order to record any defaults under the Collateral Loans as described in *Allocation of defaults* below.

#### *Allocation of defaults*

Any Funded Aggregate Principal Balance in respect of a Defaulted Collateral Loan (minus any amounts received by the Offeror and transferred to the Issuer in respect of recoveries in respect of such Collateral Loan prior to it becoming a Defaulted Collateral Loan, without double counting, to the extent relating to principal), will on the relevant Note Calculation Date be debited to the Principal Deficiency Ledgers sequentially as follows:

- (a) *first*, to the Class C PDL up to an amount equal to the aggregate Principal Amount Outstanding of the Class C Notes and if there are sufficient Revenue Available Funds then any debit amount on the Class C PDL shall be credited at item (k) of the Revenue Priority of Payments;
- (b) *second*, to the Class B PDL up to an amount equal to the aggregate Principal Amount Outstanding of the Class B Notes and if there are sufficient Revenue Available Funds then any debit amount on the Class B PDL shall be credited at item (i) of the Revenue Priority of Payments; and
- (c) *third, pro rata* to the Class A PDL up to an amount equal to the aggregate Principal Amount Outstanding of the Class A1 Notes and the Class A2 Notes (exchanged to Sterling at the Applicable Rate) and if there are sufficient Revenue Available Funds then any debit amount on the Class A PDL shall be credited at item (g) of the Revenue Priority of Payments.

Any debit amount recorded on the respective Principal Deficiency Ledgers shall be a "**Class A Principal Deficiency**", a "**Class B Principal Deficiency**" and a "**Class C Principal Deficiency**" and each a "**Principal Deficiency**", as applicable and as the context requires.

The "**Applicable Rate**" shall be a rate which is £1:€1.142 prior to the termination of the Currency Swap Agreement and the spot rate determined by the Cash Administrator following termination of the Currency Swap Agreement (if no replacement is found).

#### **Calculation of available funds**

On the fifth Business Day before each Note Payment Date (the "**Note Calculation Date**"), the Cash Administrator will calculate the amount of the Revenue Available Funds and the Replenishment/Redemption Available Funds available to the Issuer in the Interest Account and the Principal Account, respectively, to satisfy its obligations under the Notes. The Revenue Available Funds and the Replenishment/Redemption Available Funds shall be as calculated by reference to the interest and the principal receipts received by the Issuer during the three (3) preceding Monthly Periods or, in the case of the first Note Calculation Date, during the preceding period commencing on (and including) the Issue Date to (and including) the last day of November 2011 (such period a "**Note Calculation Period**").

#### **Revenue Available Funds**

On a Note Calculation Date, the Cash Administrator will calculate the amount of interest funds available to the Issuer on the immediately following Note Payment Date in the Interest Account by reference to the applicable Note Calculation Period, and such interest funds (the "**Revenue Available Funds**") shall be the sum of the following (without double counting):

- (a) the Issuer Share of any interest received by the Issuer on the Collateral Loans;
- (b) any interest credited to any of the Issuer Accounts (with the exception of the Swap Collateral Account and the Cash Collateral Account);
- (c) the Issuer Share of the aggregate amount of any Net Proceeds;
- (d) the Issuer Share of the aggregate amount received in respect of a sale of a Defaulted Collateral Loan;

- (e) any amounts that can be drawn from the Reserve Account in respect of a Revenue Shortfall on the immediately following Note Payment Date;
- (f) any amounts to be drawn under the Liquidity Facility (other than the Liquidity Facility Stand-by Drawing but including any Liquidity Facility Drawing from the Liquidity Facility Stand-by Drawing Account) on the immediately following Note Payment Date in accordance with the Liquidity Facility Agreement;
- (g) any amounts (other than any Issuer Interim Exchange Amount and the Final Exchange Amount) in respect of scheduled payments to be received from the Currency Swap Counterparty under the Currency Swap Agreement on the immediately following Note Payment Date other than any Swap Collateral provided by the Currency Swap Counterparty under the Currency Swap Agreement, *provided that* such amounts are only available for the payment by the Issuer to the Class A2 Notes;
- (h) any net amounts to be received from the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement on the immediately following Note Payment Date other than any (i) Swap Collateral provided by the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement, (ii) Additional Collateral Loan Accrued Interest Payment, (iii) Further Advance Accrued Interest Payment and (iv) Unfunded Drawing Accrued Interest Payment;
- (i) the Issuer Share of the aggregate amount received:
  - (i) in respect of a sale of Collateral Loans (other than a Defaulted Collateral Loan) under the Portfolio Offer Deed or the Trust Deed, as the case may be; and
  - (ii) in respect of any other amounts received under the Portfolio Offer Deed in connection with a Collateral Loan (other than a Defaulted Collateral Loan),
 in each case, to the extent such amounts do not relate to principal amounts;
- (j) after all amounts of interest and principal due in respect of the Notes, except for the principal amounts under the Class S Notes, have been paid on the Note Payment Date immediately preceding the relevant Note Calculation Date or will be paid on the immediately following Note Payment Date, any amount standing to the credit of the Reserve Account;
- (k) any Set-Off Amount received from the Offeror or drawn down under the Offeror Indemnity Loan Facility Agreement which shall be applied in accordance with the provisions of the Offeror Indemnity Loan Facility Agreement on the immediately following Note Payment Date and to the extent such amounts relate to interest amounts;
- (l) any income earned on Permitted Investments; and
- (m) any Reconciliation Amounts paid to the Issuer to the extent such amounts relate to interest,

*excluding* any amounts representing Swap Tax Credits;

**Revenue Priority of Payments**

Before the delivery of an Enforcement Notice by the Note Trustee if on any Note Payment Date the Issuer has any Revenue Available Funds, the Cash Administrator shall instruct the Issuer Account Bank to apply the Revenue Available Funds in accordance with the following order of priority (the "**Revenue Priority of Payments**") in each case only if and to the extent that payments or provisions of a higher order or priority have been made in full:

- (a) *first*, in or towards payment *pro rata* of all fees (including, without limitation, legal fees), costs, claims, indemnities, charges, disbursements, liabilities and expenses and all other amounts due and payable to the Note Trustee (and any receiver, agent or delegate appointed by it) pursuant to the Trust Deed and any of the other Transaction Documents (the "**Senior Expenses**") up to an amount equal to the Senior Expenses Cap;

- (b) *second*, in or towards payment *pro rata* and *pari passu* of all fees, costs and expenses due and payable to the Collateral Administrator and the Cash Administrator under the Administration Agreement, subject to the Administrative Expenses Cap;
- (c) *third*, in or towards payment *pro rata* and *pari passu* of:
- (i) all amounts due and payable to third parties under obligations incurred in respect of the Issuer's business (other than under the Transaction Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer's liability, if any, to tax (to the extent not payable out of the Issuer Profit Amount);
  - (ii) all fees, costs and expenses due and payable to the Corporate Services Provider under the Corporate Services Agreement;
  - (iii) all fees, costs and expenses due and payable to the Agents under the Agency Agreement, and any other agent appointed under the Transaction Documents, and all fees, costs and expenses due and payable to Euroclear and/or Clearstream, Luxembourg;
  - (iv) all fees, costs and expenses due and payable to the Rating Agencies;
  - (v) all fees, costs and expenses due and payable to the legal advisors, accountants and auditors appointed by the Issuer;
  - (vi) all commitment fees due and payable under the Liquidity Facility Agreement to the Liquidity Facility Provider; and
  - (vii) the Issuer Profit Amount,
- subject to (other than items (c)(vi) and (c)(vii), above) the Administrative Expenses Cap;
- (d) *fourth*, in or towards payment of all amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement except (i) all amounts paid under item (c)(vi) above and (ii) all Subordinated Liquidity Facility Amounts payable under item (n) below;
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* of all amounts due and payable to:
- (i) the Currency Swap Counterparty under the Currency Swap Agreement, in respect of the scheduled payments paid under the Currency Swap Agreement; and
  - (ii) the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement,
- in each case, including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Currency Swap Counterparty or, as the case may be, the Interest Rate Swap Counterparty, of any premium the Issuer receives in respect of a replacement swap but excluding all Subordinated Swap Amounts payable under item (m) below;
- (f) *sixth*, in or towards payment *pro rata* and *pari passu* of all interest due and overdue in respect of the Class A1 Notes and Class A2 Notes;
- (g) *seventh*, in or towards payment *pro rata* and *pari passu* of all sums to be credited to the Class A PDL until any debit balance on the Class A PDL is reduced to zero;
- (h) *eighth*, in or towards payment of all interest due or overdue in respect of the Class B Notes;
- (i) *ninth*, in or towards payment of all sums to be credited to the Class B PDL until any debit balance on the Class B PDL is reduced to zero;
- (j) *tenth*, in or towards payment of all interest due or overdue in respect of the Class C Notes;
- (k) *eleventh*, in or towards payment of all sums to be credited to the Class C PDL until any debit balance on the Class C PDL is reduced to zero;

- (l) *twelfth*, to the extent any Rated Notes remain outstanding, in or towards crediting to the Reserve Account, remaining Revenue Available Funds up to a maximum balance of £40,000,000 (the "**Reserve Account Maximum Balance**");
- (m) *thirteenth*, in or towards payment of *pro rata* all Subordinated Swap Amounts due and payable to the relevant Swap Counterparty under the relevant Swap Agreement;
- (n) *fourteenth*, in or towards payment of all Subordinated Liquidity Facility Amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement;
- (o) *fifteenth*, in or towards payment of any Senior Expenses that remain unpaid pursuant to paragraph (a) above;
- (p) *sixteenth*, in or towards payment *pro rata* and *pari passu* of any Administrative Expenses that remain unpaid pursuant to paragraphs (b) and (c) above; and
- (q) *seventeenth*, in or towards payment of any amounts due in respect of the Class S Notes.

For the purposes of this section, the following terms have the following meanings:

"**Administrative Expenses**" means those items listed at paragraphs (b), (c)(i) - (vii) (inclusive) of the Revenue Priority of Payments;

"**Administrative Expenses Cap**" means, for each Cap Annual Period, £200,000 per annum as at the Note Calculation Date immediately preceding the applicable Annual Anniversary Date or, in the case of the first Cap Annual Period, the Issue Date;

"**Issuer Profit Amount**" means an amount as described by the directors of the Issuer which shall be £10,500 on each of the Note Payment Dates falling in 2011, and thereafter £1,200 per annum, credited in equal portions on each Note Payment Date to the Issuer Profit Ledger of the Interest Account and to be retained (subject to the payment by the Issuer therefrom of any corporation tax due from the Issuer in respect of its profits) by the Issuer as profit in respect of the business of the Issuer;

"**Issuer Profit Ledger**" means the ledger opened by the Cash Administrator and designated the Issuer Profit Ledger in the Interest Account;

"**Senior Expenses Cap**" means, for each Cap Annual Period, £150,000 per annum as at the Note Calculation Date immediately preceding the applicable Annual Anniversary Date or, in the case of the first Cap Annual Period, the Issue Date;

"**Swap Tax Credits**" means any amounts that the Issuer receives from HMRC, which must be paid by the Issuer to any Swap Counterparty pursuant to paragraph 5(j) of the Schedule to the relevant Swap Agreement (as the case may be);

#### **Replenishment/Redemption Available Funds**

On a Note Calculation Date, the Cash Administrator will calculate the amount of principal funds available to the Issuer in the Principal Account by reference to the applicable Note Calculation Period, and such principal funds (the "**Replenishment/Redemption Available Funds**") shall be an amount equal to the sum of the following:

- (a) the Issuer Share of the aggregate amount of any repayment and prepayment in full or in part of principal amounts under the Collateral Loans, from any person, whether by set-off or otherwise (but excluding prepayment penalties);
- (b) the amount of any Issuer Interim Exchange Amount or the Final Exchange Amount to be received from the Currency Swap Counterparty under the Currency Swap Agreement on the immediately following Note Payment Date, provided that such amounts are only available for the payment by the Issuer to the Class A2 Notes;

- (c) the Issuer Share of the aggregate amount of any amounts received:
  - (i) in respect of a sale of a Collateral Loan (other than a Defaulted Collateral Loan) under the Portfolio Offer Deed or the Trust Deed, as the case may be; and
  - (ii) in respect of any other amounts received under the Portfolio Offer Deed in connection with a Collateral Loan (other than a Defaulted Collateral Loan),
 in each case, to the extent such amounts relate to principal amounts;
- (d) any amounts to be credited to the Principal Deficiency Ledgers on the immediately following Note Payment Date, *provided that*, before the expiry of the Replenishment Period, such amount shall not be included in the application of funds in accordance with item (b) of the Principal Priority of Payments and instead shall be applied at items (a) and (c) of the Principal Priority of Payments and items thereafter;
- (e) any Set-Off Amount received from the Offeror or amounts drawn down under the Offeror Indemnity Loan Facility Agreement which shall be applied in accordance with the provisions of the Offeror Indemnity Loan Facility Agreement on the immediately following Note Payment Date, to the extent such amounts relate to principal;
- (f) any Reconciliation Amounts paid to the Issuer to the extent such amounts relate to principal;
- (g) if no Swap Replacement Transaction has been entered into on or before the Swap Replacement Cut-Off Date, all relevant amounts standing to the credit of the Swap Termination Account; and
- (h) any Additional Collateral Loan Accrued Interest Payment, Further Advance Accrued Interest Payment and Unfunded Drawing Accrued Interest Payment.

#### **Principal Priority of Payments**

Before the delivery of an Enforcement Notice by the Note Trustee, if on any Note Payment Date the Issuer has any Replenishment/Redemption Available Funds, the Cash Administrator shall instruct the Issuer Account Bank to apply the Replenishment/Redemption Available Funds in accordance with the following order of priority (the "**Principal Priority of Payments**") in each case only if and to the extent that payments or provisions of a higher order or priority have been made in full:

- (a) *first*, in or towards payment of all amounts due and payable *pro rata* to the Currency Swap Counterparty under the Currency Swap Agreement (excluding any termination payment due and payable by the Issuer), in respect of any Issuer Interim Exchange Amount or the Issuer Final Exchange Amount under the Currency Swap Agreement in relation to the Class A2 Notes only;
- (b) *second*, during the Replenishment Period, subject to the satisfaction of the Replenishment Criteria, at the direction of the Collateral Administrator at its discretion (acting on behalf of the Issuer) (a) in the payment of any Addition Date Purchase Price or (b) up to the Replenishment Funding Limit, to the credit of the Principal Account pending acquisition of the Offeror's Benefit in Additional Collateral Loans and funding of Unfunded Drawings or Further Advances at a later date, in each case in accordance with and subject to the provisions of the Portfolio Offer Deed and the Administration Agreement;
- (c) *third*, during the Replenishment Period, by reference to funds received under item (d) of the definition of Replenishment/Redemption Available Funds only, in redeeming in the following order:
  - (i) *pro rata* and *pari passu*, the Class A1 Notes and the Class A2 Notes until there are no Class A1 Notes or Class A2 Notes outstanding;
  - (ii) *pro rata*, the Class B Notes until there are no Class B Notes outstanding;
  - (iii) *pro rata*, the Class C Notes until there are no Class C Notes outstanding;
  - (iv) *pro rata*, the Class D Notes until there are no Class D Notes outstanding; and

- (v) *pro rata*, the Class S Notes until there are no Class S Notes outstanding;
- (d) *fourth*, in redeeming *pro rata* and *pari passu*, the Class A1 Notes and the Class A2 Notes until there are no Class A1 Notes or Class A2 Notes outstanding;
- (e) *fifth*, in redeeming *pro rata*, the Class B Notes until there are no Class B Notes outstanding;
- (f) *sixth*, in redeeming, *pro rata*, the Class C Notes until there are no Class C Notes outstanding;
- (g) *seventh*, in redeeming, *pro rata*, the Class D Notes until there are no Class D Notes outstanding; and
- (h) *eighth*, in redeeming, *pro rata*, the Class S Notes until there are no Class S Notes outstanding.

"**Replenishment Funding Limit**" means 15 % of the Maximum Portfolio Funded Principal Balance.

#### **Reductions in the Principal Amount Outstanding of the Class D Notes**

The Class D Notes will be used to mitigate the risk of set-off by Borrowers. If a Borrower invokes a right of set-off for amounts due to it by the Offeror against the relevant Collateral Loan, and the Offeror elects not to reimburse the Issuer for such Set-Off Amount in accordance with the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount equal to the Set-Off Amount. Therefore, the Principal Amount Outstanding of the Class D Notes is subject to reduction, outside the operation of the Principal Priority of Payments. The Class D Notes shall, at all times, be held by the Offeror.

#### **Post Enforcement Priority of Payments**

If an Enforcement Notice is delivered to the Issuer by the Note Trustee, all monies held in the Issuer Accounts (with the exception of the Swap Collateral Account, the Cash Collateral Account and the Liquidity Facility Stand-by Drawing Account) and all (other) monies received or recovered by the Issuer (other than any Swap Tax Credits) and/or the Note Trustee (or the Cash Administrator on its behalf), will be applied in the following order or priority (the "**Post Enforcement Priority of Payments**" and together with the Revenue Priority of Payments and Principal Priority of Payments, the "**Priorities of Payments**") in each case if and to the extent that payments or provisions of a higher order or priority have been made in full:

- (a) *first*, in or towards payment of *pro rata* the Senior Expenses;
- (b) *second*, in or towards payment *pro rata* and *pari passu* of:
  - (i) all amounts due and payable to third parties under obligations incurred in respect of the Issuer's business (other than under the Transaction Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer's liability, if any, to tax;
  - (ii) all fees, costs and expenses due and payable to the Corporate Services Provider under the Corporate Services Agreement;
  - (iii) all fees, costs and expenses due and payable to the Agents under the Agency Agreement, and any other agent appointed under the Transaction Documents, and all fees, costs and expenses due and payable to Euroclear and/or Clearstream, Luxembourg;
  - (iv) all fees, costs and expenses due and payable to the Collateral Administrator under the Administration Agreement;
  - (v) all fees, costs and expenses due and payable to the Cash Administrator under the Administration Agreement;
  - (vi) all fees, costs and expenses due and payable to the Rating Agencies;



- (vii) all fees, costs and expenses due and payable to the legal advisors, accountants and auditors appointed by the Issuer; and
  - (viii) all commitment fees due and payable under the Liquidity Facility Agreement to the Liquidity Facility Provider; and
  - (ix) the Issuer Profit Amount,
- (c) *third*, in or towards payment of all amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement except (i) all amounts paid under item (b)(viii) above; and except any Subordinated Liquidity Facility Amounts payable under item (l) below;
- (d) *fourth*, in or towards payment of all amounts due and payable *pro rata* and *pari passu* to
- (i) the Currency Swap Counterparty under the Currency Swap Agreement; and
  - (ii) the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement,
- in each case, including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Currency Swap Counterparty, or as the case may be, the Interest Rate Swap Counterparty of any premium the Issuer receives in respect of a replacement swap but excluding all Subordinated Swap Amounts payable under item (k) below;
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* of:
- (i) all interest due and overdue in respect of the Class A1 Notes; and
  - (ii) all interest due and overdue in respect of the Class A2 Notes;
- (f) *sixth*, in or towards payment *pro rata* and *pari passu* of all principal due or overdue in respect of the Class A1 Notes and the Class A2 Notes;
- (g) *seventh*, in or towards payment of *pro rata* all interest due or overdue in respect of the Class B Notes;
- (h) *eighth*, in or towards payment of *pro rata* all principal due or overdue in respect of the Class B Notes;
- (i) *ninth*, in or towards payment of *pro rata* all interest due or overdue in respect of the Class C Notes;
- (j) *tenth*, in or towards payment of *pro rata* all principal due or overdue in respect of the Class C Notes;
- (k) *eleventh*, in or towards payment *pro rata* of all Subordinated Swap Amounts due and payable to the relevant Swap Counterparty under the relevant Swap Agreement;
- (l) *twelfth*, in or towards payment of all Subordinated Liquidity Facility Amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement;
- (m) *thirteenth*, in or towards payment of *pro rata* all principal due or overdue in respect of the Class D Notes; and
- (n) *fourteenth*, in or towards payment of any amounts due in respect of the Class S Notes.

## Liquidity Facility

### *The Liquidity Facility*

On or about the Issue Date, the Issuer will enter into the Liquidity Facility Agreement with the Liquidity Facility Provider. On a Note Payment Date, the Issuer will be able to make drawings under the Liquidity Facility up to an amount (the "**Liquidity Facility Maximum Amount**") equal to the higher of:

- (a) an amount equal to 2.00 per cent. of the Principal Amount Outstanding of the Class A Notes on such date; and
- (b) an amount equal to 1.80 per cent. of the Initial Principal Amount of the Class A Notes,

in each case, in respect of the Class A2 Notes, exchanged to GBP at a rate of £1:€1.142, *provided that*, upon the occurrence of the earlier of (i) a Note Payment Date or any Business Day (as the case may be) if and to the extent that on such date the Notes are redeemed in full; (ii) following the service of an Enforcement Notice; or (iii) the Final Maturity Date, the Liquidity Facility Maximum Amount shall be zero.

### *Utilisation and term*

On any Note Payment Date (other than (i) a Note Payment Date or any Business Day (as the case may be) if and to the extent that on such date the Notes are redeemed in full (ii) following the service of an Enforcement Notice; or (iii) the Final Maturity Date) the Issuer will be entitled to make drawings under the Liquidity Facility up to the Liquidity Facility Maximum Amount.

The Liquidity Facility Agreement will be for a term up to the Final Maturity Date. Payments to the Liquidity Facility Provider (other than the Subordinated Liquidity Facility Amounts) will rank in priority higher than payments under the Notes.

### *Availability*

Any drawing under the Liquidity Facility by the Issuer (each a "**Liquidity Facility Drawing**") may be made in GBP.

The Liquidity Facility Drawing can only be made if, on a Note Payment Date after the application of the amounts available in the Reserve Account, there remains a shortfall in the Revenue Available Funds required in order for the Issuer to make payment in full in respect of items (a) up to and including (j) of the Revenue Priority of Payments on such Note Payment Date, *provided that* no drawings may be made to meet items (g) and (i) of the Revenue Priority of Payments, and *provided further that*, no drawings may be made on any Note Payment Date for the payment of any shortfalls in interest:

- (a) on the Class A1 Notes and the Class A2 Notes if there was a Class A Principal Deficiency outstanding on the first day of the Quarterly Interest Period ending on such Note Payment Date;
- (b) on the Class B Notes if there was a Class B Principal Deficiency outstanding on the first day of the Quarterly Interest Period ending on such Note Payment Date; and
- (c) on the Class C Notes if there was a Class C Principal Deficiency outstanding on the first day of the Quarterly Interest Period ending on such Note Payment Date.

Upon making a Liquidity Facility Drawing, the Liquidity Facility Account shall be debited for an amount equal to the relevant Liquidity Facility Drawing. The proceeds of any Liquidity Facility Drawing shall be credited (by or on behalf of the Issuer) to the Interest Account.

### *Minimum required ratings and stand-by drawings*

If, at any time, the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Facility Provider are (a) assigned a credit rating of less than any of the IAB Required Ratings and/or such rating is withdrawn and (b) within thirty (30) calendar days of such downgrading or withdrawal the Liquidity Facility Provider is not replaced by the Issuer with a suitable alternative liquidity facility provider with the IAB Required Ratings, or a third party having the IAB Required

Ratings has not guaranteed the obligations of the Liquidity Facility Provider, or any other solution is not found, the Issuer will, unless a Rating Agency Confirmation is provided, be required forthwith to draw down the entire undrawn portion of the Liquidity Facility (a "**Liquidity Facility Stand-by Drawing**") and credit such amount into the Liquidity Facility Stand-by Drawing Account during this time period. A Liquidity Facility Stand-by Drawing credited to the Liquidity Facility Stand-by Drawing Account may be utilised by the Issuer in the same manner as described in *Availability* above. Upon utilisation of a Liquidity Facility Drawing from the Liquidity Facility Stand-by Drawing Account, the Liquidity Facility Stand-by Drawing Account shall be debited for an amount equal to such Liquidity Facility Drawing and such amount will be credited to the Interest Account to be applied by or on behalf of the Issuer in accordance with the Liquidity Facility Agreement.

Subject to the following sentence, any repayment of the Liquidity Facility after the Liquidity Facility Stand-by Drawing shall be made to the Liquidity Facility Stand-by Drawing Account. In addition, if a Liquidity Facility Stand-by Drawing is made, on each Note Payment Date thereafter where the amount standing to the credit of the Liquidity Stand-by Drawing Account is an amount higher than the Liquidity Facility Maximum Amount, the Issuer will make any repayments necessary on such Note Payment Date in accordance with the terms of the Liquidity Facility Agreement in order to ensure that the balance of the Liquidity Facility Stand-by Drawing Account does not exceed the Liquidity Facility Maximum Amount. Such repayments shall be made by the Issuer outside, and not subject to, the relevant Priority of Payment.

#### *Subordinated Liquidity Facility Amounts*

Certain payment obligations owed by the Issuer to the Liquidity Facility Provider will be subordinated to certain other obligations owed by the Issuer to the Liquidity Facility Provider under the Liquidity Facility Agreement.

An amount equal to the sum of:

- (a) an amount equal to the greater of zero and:
  - (i) the interest due and payable to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement in relation to the Liquidity Facility Stand-by Drawing; *minus*
  - (ii) the interest received from the GIC Provider on the balance standing to the credit of the Liquidity Facility Stand-by Drawing Account;

*plus*

- (b) any gross-up amounts or additional amounts due and payable under the Liquidity Facility (if any) and not otherwise paid under item (c)(vi) of the Revenue Priority of Payments and under item (b)(viii) of the Post Enforcement Priority of Payments, as applicable,

(such amount, a "**Subordinated Liquidity Facility Amount**") shall be payable at item (n) of the Revenue Priority of Payments and at item (l) of the Post Enforcement Priority of Payments, as applicable.

#### **Interest Rate Swap Agreement**

The Issuer will receive, amongst other things, floating rate interest or a fixed rate of interest (subject to a reset, from time to time) on and in respect of the Collateral Loans it shall purchase under the Portfolio Offer Deed. The Issuer will pay a rate of interest equal to LIBOR plus a fixed margin on the Notes it shall issue on or about the Issue Date (with the exception of the Class A2 Notes, in relation to which, it shall pay a rate of interest equal to EURIBOR plus a fixed margin).

To hedge part of the interest rate mismatch between the interest rate income the Issuer will receive under the Collateral Loans and the interest payments the Issuer is obliged to make under the Notes, the Issuer shall on or before the Issue Date enter into the Interest Rate Swap Agreement.

Under the Interest Rate Swap Agreement, the Issuer will pay to the Interest Rate Swap Counterparty on a Note Payment Date and in respect of the relevant Note Calculation Period, an amount (the "**Fixed Payment**") equal to the sum of (1) the Issuer Share of all interest received by the Issuer under and in respect of the Fixed Rate Collateral Loans which are not Defaulted Collateral Loans and (2) the product of (a) an amount in Sterling (the "**Base Rate Notional Amount**") equal to the greater of zero and the

Principal Amount Outstanding of the Class A Notes and the Class B Notes (in the case of the Class A2 Notes, converted into Sterling at the agreed exchange rate under the Currency Swap Agreement) on the first day of the relevant Quarterly Interest Period, minus the Average Funded Fixed Rate Loan Balance in respect of the applicable Note Calculation Period, (b) the weighted average Base Rate plus a spread during the relevant Note Calculation Period, and (c) the number of days in the relevant Note Calculation Period divided by 365. Such Fixed Payment shall not include, for the avoidance of doubt, interest received on the Fixed Rate Collateral Loans which become Defaulted Collateral Loans during such Note Calculation Period and have not been or are not intended to be repurchased by the Offeror on or before the relevant Note Payment Date.

In return, the Interest Rate Swap Counterparty will pay the Issuer amounts (the "**Floating Payment**") equal to the sum of (1) the product of (a) the Average Funded Fixed Rate Loan Balance in respect of the applicable Note Calculation Period, (b) three month Sterling LIBOR plus a spread, and (c) the number of days in the relevant Quarterly Interest Period divided by 365, and (2) the product of (a) the Base Rate Notional Amount in respect of the applicable Quarterly Interest Period, (b) three month Sterling LIBOR plus a spread, and (c) the number of days in the relevant Quarterly Interest Period divided by 365.

In addition, the Interest Rate Swap Counterparty shall have an obligation to pay:

- (a) on the Issue Date, an amount equal to the accrued unpaid interest on such date in respect of the Funded Aggregate Principal Balance of Fixed Rate Collateral Loans on such date (the "**Initial Accrued Interest Payment**"),
- (b) on the relevant Addition Date in respect of any Additional Collateral Loans that are Fixed Rate Collateral Loans, an amount equal to the accrued unpaid interest on such date in respect of the Funded Aggregate Principal Balance of such Additional Collateral Loans on such date (each an "**Additional Collateral Loan Accrued Interest Payment**"),
- (c) on the relevant Addition Date in respect of a Further Advance in respect of a Fixed Rate Collateral Loan, an amount equal to the accrued unpaid interest (if any) on such date in respect of the portion of Funded Aggregate Principal Balance of the Collateral Loan under which such Further Advance is made which relates to such Further Advance on such date (each a "**Further Advance Accrued Interest Payment**") and, for the avoidance of doubt, if the Further Advance Addition Date Purchase Price in respect of a Further Advance is paid by the Issuer in full on the day such Further Advance is drawn down by the relevant Borrower, no such Further Advance Accrued Interest Payment will be payable by the Interest Rate Swap Counterparty,
- (d) on the relevant Addition Date in respect of an Unfunded Drawing relating to a Fixed Rate Collateral Loan, an amount equal to the accrued unpaid interest (if any) on such date in respect of the portion of Funded Aggregate Principal Balance of the Collateral Loan under which such Unfunded Drawing is made which relates to such Unfunded Drawing on such date (each an "**Unfunded Drawing Accrued Interest Payment**").

In this section,

"**Average Funded Fixed Rate Loan Balance**" means, in respect of a Note Calculation Period, the average of the daily aggregate Funded Aggregate Principal Balance of the Fixed Rate Collateral Loans which are not Defaulted Collateral Loans during the relevant Note Calculation Period, as notified by the Cash Administrator in accordance with the Administration Agreement. Such Fixed Rate Collateral Loans shall not include, for the avoidance of doubt, Fixed Rate Collateral Loans which become Defaulted Collateral Loans during such Note Calculation Period and have not been or are not intended to be repurchased by the Offeror on or before the relevant Note Payment Date;

"**Base Rate**" means the base rate of Lloyds TSB Bank plc as may be varied from time to time; and

"**Fixed Rate Collateral Loans**" means Collateral Loans on which the interest is calculated by reference to a fixed rate of interest.

The Interest Rate Swap Agreement will be documented under a 1992 ISDA Master Agreement (*Multicurrency-Crossborder*) and be governed by English law.

## Currency Swap Agreement

The Issuer will enter into a currency swap with the Swap Counterparty (in its capacity as the "**Currency Swap Counterparty**") (the "**Currency Swap Agreement**") in order to hedge its exposure to fluctuations in the GBP:EUR exchange rate and enable it to satisfy its payment obligations to the Noteholders of the Class A2 Notes.

Pursuant to the Currency Swap Agreement:

- (a) On the Issue Date, in respect of the Class A2 Notes, the Issuer will pay to the Currency Swap Counterparty the euro proceeds from the issue of the Class A2 Notes and the Currency Swap Counterparty will pay an equivalent amount converted to Sterling at the Exchange Rate;
- (b) On the Issue Date, the Issuer will also make an upfront payment to the Currency Swap Counterparty under the Currency Swap Agreement as the "**Initial Issuer Swap Payment**";
- (c) On each Note Payment Date,
  - (i) the Issuer will pay an amount equal to the lesser of (a) the Revenue Available Funds available to the Issuer in Sterling on such Note Payment Date in accordance with the applicable Priority of Payments to pay interest due and payable on the Class A2 Notes, which shall take into account any Liquidity Facility Drawing made in Sterling by the Issuer (the "**Issuer A2 Available Floating Amount**") and (b) the sum of (1) the product of (A) the Principal Amount Outstanding of the Class A2 Notes on the first day of such Quarterly Interest Period after any redemptions made on such date (the "**A2 Euro Principal Amount**") converted to Sterling at the Exchange Rate, (B) 3-month LIBOR or, in relation to the First Interest Period, a linear interpolation rate for a period of 4 months and 5 months, plus the Relevant Margin and (C) the number of days in the relevant Quarterly Interest Period divided by 365 (or 366 in a leap year) and (2) any deficit amount for the immediately preceding Quarterly Interest Period, (which means the amount by which the Issuer A2 Due Floating Amount (as defined below) for the immediately preceding Quarterly Interest Period exceeds the Issuer A2 Floating Amount (as defined below) for the same period) (the sum of (1) and (2) meaning the "**Issuer A2 Due Floating Amount**" and the lesser of (a) and (b) meaning the "**Issuer A2 Floating Amount**"); and
  - (ii) the Currency Swap Counterparty will pay an amount equal to the product of (x) the sum of (1) the product of (A) the A2 Euro Principal Amount, (B) 3-month EURIBOR or, in relation to the First Interest Period, a linear interpolation rate for a period of 4 months and 5 months, plus the Relevant Margin and (C) the number of days in the relevant Quarterly Interest Period divided by 360 and (2) any deficit amount for the immediately preceding Quarterly Interest Period, (which means the amount by which the Swap Counterparty A2 Due Amount (as defined below) for the immediately preceding Quarterly Interest Period exceeds the Swap Counterparty A2 Floating Amount (as defined below), for the same period) (the sum of (1) and (2) meaning the "**Swap Counterparty A2 Due Amount**") and (y) a fraction, the numerator of which is the Issuer A2 Available Floating Amount, and the denominator of which is the Issuer A2 Due Floating Amount, subject to a maximum of 1 in each case (the product of (x) and (y) meaning the "**Swap Counterparty A2 Floating Amount**").
- (d) On each Note Payment Date on which the Issuer redeems the Class A2 Notes in part pursuant to Condition 7.2 (*Mandatory Redemption in Part*), the Issuer will pay an amount in Sterling equal to the amount available for redemption of the Class A2 Notes (the "**Issuer Interim Exchange Amount**") and the Currency Swap Counterparty will pay an amount in euro equal to the Issuer Interim Exchange Amount converted to euro at the Exchange Rate;
- (e) On the earlier of (A) the date on which all of the Class A2 Notes are redeemed in full and (B) the Final Maturity Date (the "**Termination Date**") the Issuer will pay an amount (the "**Issuer Final Exchange Amount**") in Sterling equal to the lesser of (as at the Termination Date) (i) the aggregate Principal Amount Outstanding of the Class A2 Notes converted into Sterling at the Exchange Rate and (ii) the funds available to the Issuer pursuant to the applicable Principal

Priority of Payments or Post Enforcement Priority of Payments to redeem the Class A2 Notes on the Termination Date; and the Currency Swap Counterparty will pay an amount in euro equal to the Issuer Final Exchange Amount converted into euro at the Exchange Rate.

In this section,

**"Exchange Rate"** means the Sterling euro rate of exchange specified in the Currency Swap Agreement; and

**"Relevant Margin"** means the Party A Spread or the Party B Spread, as the case may be, as defined in the Currency Swap Agreement.

Each Currency Swap Agreement will be documented under a 1992 ISDA Master Agreement (*Multicurrency-Crossborder*) and be governed by English law.

#### **Termination of the relevant Swap Agreement**

A Swap Agreement may be terminated early by the relevant Swap Counterparty in certain circumstances including, but not limited to, the following:

- (a) if there is a failure by the Issuer to pay amounts due under the relevant Swap Agreement and any grace period has expired;
- (b) if certain insolvency events occur with respect to the Issuer (as set out in the relevant Swap Agreement);
- (c) if a change of law results in it becoming unlawful for one of the parties to perform one or more of its obligations under the relevant Swap Agreement;
- (d) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed in relation to a Swap Agreement either (i) on any payment by the relevant Swap Counterparty under the relevant Swap Agreement which results in that Swap Counterparty being obliged to gross up its payments under the terms of the relevant Swap Agreement, or (ii) on any payment by the Issuer under the relevant Swap Agreement;
- (e) if the Note Trustee serves an Enforcement Notice on the Issuer pursuant to Condition 12 (*Events of Default*) of the Notes;
- (f) if any of the Transaction Documents are amended in any material respect in a manner detrimental to the Swap Counterparty's interests (other than with the prior written consent of the Swap Counterparty); and
- (g) if any of the Priority of Payments is amended so as to reduce the ranking of the relevant Swap Counterparty (other than with the prior written consent of such Swap Counterparty).

A Swap Agreement may be terminated early by the Issuer in certain circumstances, including but not limited to, the following:

- (a) if an Event of Default (as defined in the Swap Agreement) or Additional Termination Event (as defined in the Swap Agreement) has occurred in respect of Swap Counterparty under the relevant Swap Agreement and any applicable grace period has expired including, but not limited to:
  - (i) if the relevant Swap Counterparty fails to pay amounts due under a Swap Agreement and any applicable grace period has expired;
  - (ii) if certain insolvency events occur with respect to the relevant Swap Counterparty;
  - (iii) if a breach of a provision of the relevant Swap Agreement by the relevant Swap Counterparty is not remedied within the applicable grace period;
  - (iv) if a change of law results in it becoming unlawful for one of the parties to perform one or more of its obligations under the relevant Swap Agreement;

- (v) if there is a misrepresentation by the Swap Counterparty in any material respect;
- (vi) if the relevant Swap Counterparty merges with another entity and the merged entity does not assume obligations under the Swap Agreement; and
- (vii) if the relevant Swap Counterparty is downgraded and fails to comply with the requirements of the downgrade provisions contained in the relevant Swap Agreement.

Each Swap Agreement provides that if such Swap Agreement is terminated, a termination payment may be made by either party based on the market value of that Swap Agreement as determined on the basis of quotations sought from leading dealers as to the payment required to be made in order to enter into a transaction that would have the effect of preserving the economic equivalent of the respective payment obligations of the parties (or based upon a good faith determination of one of the party's total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination.

#### **Downgrade of a Swap Counterparty by the Rating Agencies**

Under the terms of the Swap Agreements, in the event that the rating(s) of the relevant Swap Counterparty are below, or are downgraded by a Rating Agency below, any of the Swap Counterparty Required Ratings, the relevant Swap Counterparty will, in accordance with the relevant Swap Agreement, be required to take certain remedial measures which may include:

- (a) providing collateral for its obligations under the relevant Swap Agreement;
- (b) arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the ratings required by the relevant Rating Agency;
- (c) procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the relevant Swap Agreement; or
- (d) taking such other action or putting in place such alternative hedging as it may agree with the relevant Rating Agency (subject to the then current ratings of the Rated Notes not being adversely affected as a result thereof).

A failure to take such steps within the time periods specified in the relevant Swap Agreement will allow the Issuer to terminate such Swap Agreement.

As at the date of this Prospectus, the minimum required ratings for each Swap Counterparty are the same as the "**Swap Counterparty Required Ratings**" namely: F1 (short-term) and P-1 (short-term) from Fitch and Moody's, respectively and A (long-term) and A2 (long-term) from Fitch and Moody's, respectively and if there is no short-term rating from Moody's, the minimum required rating shall be A1 (long-term), **provided that**, if a Swap Counterparty's long-term rating has been placed on "Ratings Watch Negative" by Fitch, such Swap Counterparty will be required to have a long-term rating of at least A+ (long-term) by Fitch.

If collateral (or the equivalent thereof, as appropriate) is to be retransferred by the Issuer to a Swap Counterparty pursuant to a Swap Agreement, such collateral shall be retransferred outside of the Priority of Payments.

#### **Credit Support Annex**

On or around the Issue Date, each Swap Counterparty will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (each a "**Swap Credit Support Annex**") in support of the obligations of that Swap Counterparty under the relevant Swap Agreement. Pursuant to the terms of each Swap Credit Support Annex, if at the time the relevant Swap Counterparty is required to provide collateral in respect of any of its obligations under the relevant Swap Agreement, such Swap Credit Support Annex will provide that, from time to time, subject to the conditions specified in the Swap Credit Support Annex and the relevant Swap Agreement, the relevant Swap Counterparty will make transfers of collateral (the "**Swap Collateral**") to the Issuer in respect of its obligations under the relevant Swap

Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Credit Support Annex.

The Issuer will keep any collateral received from a Swap Counterparty pursuant to the Currency Swap Credit Support Annex in separate cash and/or securities accounts. The Issuer may only make payments or transfers utilising any monies and/or securities held in the relevant Swap Collateral Account if such payments and transfers are made in accordance with the terms of the relevant Swap Credit Support Annex. Amounts standing to the credit of the relevant Swap Collateral Account will not, upon enforcement of the Security, be available to the Secured Creditors generally and may only be applied in satisfaction of amounts owing by the relevant Swap Counterparty, or to be repaid to the relevant Swap Counterparty, in accordance with the terms of the relevant Swap Agreement. There may be circumstances where no amount is owing by the relevant Swap Counterparty. In such circumstances the transferred collateral must be returned to that Swap Counterparty.

#### **Subordinated Swap Amounts**

Any termination payment due and payable by the Issuer to the Interest Rate Swap Counterparty or the Currency Swap Counterparty under the Interest Rate Swap Agreement or the Currency Swap Agreement where:

- (a) an Event of Default (as defined in the Interest Rate Swap Agreement and/or the Currency Swap Agreement) has occurred and the Defaulting Party (as defined in the Interest Rate Swap Agreement and/or the Currency Swap Agreement) is the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement and/or the Currency Swap Counterparty under the Currency Swap Agreement, as applicable, and/or
- (b) an Additional Termination Event (as defined in the Interest Rate Swap Agreement and/or the Currency Swap Agreement) has occurred as a result of the Interest Rate Swap Counterparty or the Currency Swap Counterparty, as the case may be, failing to take the required remedial action following the downgrade or withdrawal of a rating of the Interest Rate Swap Counterparty or the Currency Swap Counterparty, as applicable,

(each such amount payable by the Issuer, a "**Subordinated Swap Amount**") shall be payable at item (m) of the Revenue Priority of Payments and item (k) of the Post Enforcement Priority of Payments.



## COLLATERAL PORTFOLIO

### Introduction

Pursuant to the Portfolio Offer Deed, the Offeror will assign all of its Benefits under a portfolio of Collateral Loans and declare trusts over all its Benefits under the Related Security as further described below in the section "*Portfolio Offer Deed and Declaration of Trusts*". On the Issue Date, the Funded Aggregate Principal Balance of the Collateral Loans in the Collateral Portfolio is approximately £1.22 billion. At 30 April 2011 (the "**Issue Measurement Date**"), each Collateral Loan included in the Collateral Portfolio as a whole satisfied the Eligibility Criteria as set out below. During the Replenishment Period, the Offeror may offer to sell Additional Collateral Loans to the Issuer and the Issuer may accept such offer and may fund the purchase of Additional Collateral Loans, Unfunded Drawings and/or Further Advances made in respect of an existing Collateral Loan using Principal Receipts pursuant to the terms of the Administration Agreement and the Portfolio Offer Deed, subject to the satisfaction of the Replenishment Criteria. Following the expiry of the Replenishment Period, the Collateral Portfolio will be static and no additional advances will be included in the Collateral Portfolio other than changes resulting from permitted re-acquisitions.

The Collateral Loans were selected from a portfolio of loans to small and medium-sized enterprise borrowers in the UK. The Collateral Loans were originated by Lloyds TSB Bank Commercial Banking in the normal course of its business from its £0 million to £2 million turnover book.

The Collateral Portfolio has characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Notes.

### Portfolio Selection

On the Issue Measurement Date the Collateral Portfolio is expected to be comprised of approximately 9,182 Collateral Loans to 8,245 Borrowers for a total of £1.22 billion. The underlying Borrowers in the transaction are small and medium-sized enterprise borrowers (each a "**Borrower**" and collectively the "**Borrowers**"), each with a Funded Aggregate Principal Balance of greater than £25,000 and lower than or equal to £3,000,000. The Collateral Loans were selected from a portfolio of loans to SME borrowers in the UK. The Collateral Loans were originated by Lloyds TSB Commercial in the normal course of its business.

### Key Features of the Collateral Portfolio

As of the Issue Measurement Date, each Collateral Loan included in the Collateral Portfolio will satisfy the Eligibility Criteria set out below.

Certain characteristics of the Collateral Portfolio set forth below refer to the composition of the portfolio as at the Issue Measurement Date (unless otherwise specified in respect of the relevant information). The composition of the Collateral Portfolio will vary over time due to, *inter alia*, replenishment as set out in this Prospectus, repayment and prepayment under the relevant Collateral Loan, release, enforcement or changes to the Related Security made by the Offeror in accordance with its normal business practice acting as a reasonable and prudent lender of SME loans and as a result, the characteristics of the Collateral Portfolio set forth below are not necessarily indicative of the characteristics of the Collateral Portfolio at any subsequent time.

As of the Issue Measurement Date (unless otherwise specified in respect of the relevant information), the Collateral Loans had the following characteristics as set out in the tables below. Prospective investors should note that, as described in the paragraph above, the composition of the Collateral Portfolio may vary over time. In addition to the Collateral Loans in the Collateral Portfolio possibly being replenished, the Related Security securing such Collateral Loans may vary from time to time in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans (which may result in a variation in the security to loan valuations or security types as set out in the tables below).

## 1 Portfolio Summary

<b>Portfolio Summary</b>	<b>Amount/Percentage</b>
Maximum Internal Basel II PD .....	10.61%
Average Internal Basel II PD .....	2.35%
Minimum Maturity .....	Sep-2011
Maximum Maturity .....	Jun-2035
Security Cover .....	200.51%
Security Cover in relation to 1st Lien Charge over Property .....	173.42%
No. of Borrowers .....	8,245
1st Largest Borrower .....	0.19%
2nd Largest Borrower .....	0.19%
3rd Largest Borrower .....	0.18%
4th Largest Borrower .....	0.15%
5th Largest Borrower .....	0.14%
6th Largest Borrower .....	0.13%
7th Largest Borrower .....	0.13%
8th Largest Borrower .....	0.13%
9th Largest Borrower .....	0.13%
10th Largest Borrower .....	0.12%
Average Borrower Concentration .....	0.01%
<b>Moody's Industry Sector Concentrations</b>	<b>Percentage</b>
1st Largest Moody's Industry: CORP - Construction & Building .....	34.98%
2nd Largest Moody's Industry: CORP - Beverage, Food & Tobacco.....	17.09%
3rd Largest Moody's Industry: CORP - Healthcare & Pharmaceuticals .....	15.95%
4th Largest Moody's Industry: CORP - Hotel, Gaming & Leisure.....	12.39%
5th Largest Moody's Industry: CORP - Services: Business.....	4.90%
<b>Fitch Industry Sector Concentrations</b>	<b>Percentage</b>
1st Largest Fitch Industry: real estate.....	24.19%
2nd Largest Fitch Industry: healthcare .....	16.22%
3rd Largest Fitch Industry: farming & agricultural services.....	12.91%
4th Largest Fitch Industry: lodging & restaurants.....	10.79%
5th Largest Fitch Industry: building & materials .....	10.21%

2 **Concentration of Loans**

<b>Lower Bound</b>	<b>Upper Bound</b>	<b>No. Of Loans in Interval</b>	<b>Amount</b>	<b>Concentration %</b>
25,000	50,000	1,739	66,122,134	5.42%
50,000	100,000	3,146	240,557,707	19.72%
100,000	150,000	1,985	234,212,657	19.20%
150,000	200,000	827	142,600,495	11.69%
200,000	500,000	1,262	367,195,605	30.10%
500,000	1,000,000	190	127,329,243	10.44%
1,000,000	1,500,000	28	32,935,260	2.70%
1,500,000	2,000,000	4	6,679,368	0.55%
2,000,000	2,500,000	1	2,367,532	0.19%
2,500,000	3,000,000	-	-	0.00%
3,000,000	3,100,000	-	-	0.00%
<b>Grand Total</b>		<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

### 3 Concentration of Borrowers

<u>Conc. Interval Lower</u>	<u>Conc. Interval Upper</u>	<u>No. of Borrowers</u>	<u>Amount</u>	<u>Concentration %</u>
0.00%	0.02%	7,075	704,856,959	57.78%
0.02%	0.04%	866	284,919,756	23.35%
0.04%	0.06%	177	102,852,761	8.43%
0.06%	0.08%	80	66,744,389	5.47%
0.08%	0.10%	26	27,882,607	2.29%
0.10%	0.15%	17	23,993,425	1.97%
0.15%	0.20%	4	8,750,105	0.72%
0.20%	0.25%	-	-	0.00%
<b>Grand Total</b>		<b>8,245</b>	<b>1,220,000,000</b>	<b>100.00%</b>

4 **Legal Final (Scheduled) Maturity of Portfolio Loans**

<u>Maturity Interval (years)</u>	<u>Maturity Interval (years)</u>	<u>No. of Loans</u>	<u>Amount</u>	<u>Concentration %</u>
-	1	84	14,406,198	1.18%
1	3	420	58,165,869	4.77%
3	5	525	46,786,956	3.83%
5	7	913	100,072,734	8.20%
7	9	1,407	161,773,833	13.26%
9	11	716	80,786,647	6.62%
11	13	1,204	146,478,388	12.01%
13	15	1,081	138,007,412	11.31%
15	18	1,168	198,467,471	16.27%
18	20	499	84,680,787	6.94%
20	23	697	125,981,671	10.33%
23	25	468	64,392,033	5.28%
<b>Grand Total</b>		<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

5 **Vintage (year of Origination) of Portfolio**

<b>Origination Year Beginning</b>	<b>Origination Year End</b>	<b>No. of Loans</b>	<b>Amount</b>	<b>Concentration %</b>
01-Jan-2001	01-Jan-2003	25	1,625,628	0.13%
01-Jan-2003	01-Jan-2004	24	1,547,639	0.13%
01-Jan-2004	01-Jan-2005	209	21,951,045	1.80%
01-Jan-2005	01-Jul-2005	210	22,430,331	1.84%
01-Jul-2005	01-Jan-2006	245	26,087,402	2.14%
01-Jan-2006	01-Jul-2006	386	46,623,476	3.82%
01-Jul-2006	01-Jan-2007	680	91,608,380	7.51%
01-Jan-2007	01-Jul-2007	831	111,332,861	9.13%
01-Jul-2007	01-Jan-2008	823	117,148,041	9.60%
01-Jan-2008	01-Jul-2008	1,092	153,932,841	12.62%
01-Jul-2008	01-Jan-2009	1,042	153,463,159	12.58%
01-Jan-2009	01-Jul-2009	1,288	166,735,967	13.67%
01-Jul-2009	01-Jan-2010	1,228	166,987,553	13.69%
01-Jan-2010	01-Jul-2010	1,099	138,525,676	11.35%
<b>Grand Total</b>		<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

6 **Internal Rating of Portfolio by Basel II PD**

<b>PD</b>	<b>No. of Loans</b>	<b>Amount</b>	<b>Concentration %</b>
0.54%	1,271	170,714,715	13.99%
0.76%	764	103,534,083	8.49%
1.12%	2,286	302,243,200	24.77%
1.67%	1,349	186,792,762	15.31%
2.62%	2,365	320,354,450	26.26%
5.67%	432	49,616,643	4.07%
8.04%	-	-	0.00%
10.61%	715	86,744,148	7.11%
<b>Grand Total</b>	<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

7 **Exposure to UK Regions**

<b>Region</b>	<b>No. of Loans</b>	<b>Amount</b>	<b>Concentration %</b>
BIRMINGHAM & WEST MIDLANDS .....	778	98,327,424	8.06%
CENTRAL LONDON .....	268	51,398,876	4.21%
EAST MIDLANDS .....	891	116,582,719	9.56%
EASTERN .....	588	84,853,584	6.96%
ESSEX & NORTH HERTS .....	363	54,954,854	4.50%
MANCHESTER & MERSEYSIDE.....	551	65,138,843	5.34%
NORTH .....	789	91,467,308	7.50%
OUTER LDN & THAMES VALLEY .....	386	63,725,404	5.22%
SOUTH CENTRAL.....	376	52,666,457	4.32%
SOUTH EAST.....	406	64,886,078	5.32%
SOUTH MIDLANDS .....	537	72,489,526	5.94%
SOUTH WEST .....	1,355	167,047,280	13.69%
WALES .....	765	91,905,181	7.53%
WEST .....	519	73,359,925	6.01%
YORKS & LANCS.....	610	71,196,543	5.84%
<b>Grand Total.....</b>	<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>



8 Exposure to Moody's Industry Sectors

Moody's Industry Sector	No. of Loans	Amount	Concentration %
CORP - Aerospace & Defense .....	-	-	0.00%
CORP - Automotive.....	274	27,474,757	2.25%
CORP - Banking.....	14	1,573,476	0.13%
CORP - Beverage, Food & Tobacco.....	1,585	208,558,392	17.09%
CORP - Capital Equipment.....	113	11,680,014	0.96%
CORP - Chemicals, Plastics & Rubber.....	14	1,378,501	0.11%
CORP - Construction & Building.....	3,281	426,753,509	34.98%
CORP - Consumer goods: Durable.....	130	14,895,406	1.22%
CORP - Consumer goods: Non-durable.....	99	11,886,550	0.97%
CORP - Containers, Packaging & Glass.....	10	920,807	0.08%
CORP - Energy: Electricity.....	-	-	0.00%
CORP - Energy: Oil & Gas.....	15	1,868,218	0.15%
CORP - Environmental Industries.....	64	6,603,069	0.54%
CORP - FIRE: Finance.....	18	2,054,010	0.17%
CORP - FIRE: Insurance.....	146	14,988,571	1.23%
CORP - Forest Products & Paper.....	13	1,000,534	0.08%
CORP - Healthcare & Pharmaceuticals.....	927	194,617,041	15.95%
CORP - High Tech Industries.....	22	2,419,318	0.20%
CORP - Hotel, Gaming & Leisure.....	1,189	151,106,896	12.39%
CORP - Media: Advertising, Printing & Publishing.....	58	4,817,936	0.39%
CORP - Media: Broadcasting & Subscription.....	25	2,449,929	0.20%
CORP - Media: Diversified & Production.....	-	-	0.00%
CORP - Metals & Mining.....	34	3,857,169	0.32%
CORP - Retail.....	248	25,802,475	2.11%
CORP - Services: Business.....	503	59,723,984	4.90%
CORP - Services: Consumer.....	157	13,905,445	1.14%
CORP - Sovereign & Public Finance.....	122	17,592,380	1.44%
CORP - Telecommunications.....	2	485,833	0.04%
CORP - Transportation: Cargo.....	84	8,915,662	0.73%
CORP - Transportation: Consumer.....	35	2,670,117	0.22%
CORP - Utilities: Water.....	-	-	0.00%
<b>Grand Total.....</b>	<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

9 Exposure to Fitch Industry Sectors

<b>Fitch Industry Sector</b>	<b>No. of Loans</b>	<b>Amount</b>	<b>Concentration %</b>
aerospace & defense .....	-	-	0.00%
automobiles.....	279	27,827,107	2.28%
banking & finance.....	196	21,010,781	1.72%
broadcasting & media .....	26	2,619,310	0.21%
building & materials .....	914	124,610,799	10.21%
business services.....	520	62,152,934	5.09%
cable.....	-	-	0.00%
chemicals .....	4	391,536	0.03%
computers & electronics .....	228	23,322,626	1.91%
consumer products .....	350	36,836,914	3.02%
energy .....	15	1,868,218	0.15%
environmental services.....	13	1,903,529	0.16%
farming & agricultural services .....	1,164	157,488,213	12.91%
food & beverage & tobacco .....	47	5,306,536	0.43%
gaming & leisure & entertainment .....	153	18,073,169	1.48%
healthcare.....	946	197,911,420	16.22%
industrial/manufacturing .....	119	12,488,957	1.02%
lodging & restaurants.....	1,025	131,680,791	10.79%
metals & mining .....	7	550,673	0.05%
packaging & containers.....	1	29,799	0.00%
paper & forest products.....	80	7,109,032	0.58%
pharmaceuticals .....	1	119,992	0.01%
real estate .....	2,311	295,068,874	24.19%
retail (general).....	350	45,399,424	3.72%
supermarkets & drugstores.....	132	11,676,581	0.96%
telecommunications .....	-	-	0.00%
textiles & furniture.....	48	4,860,355	0.40%
transportation .....	161	15,263,680	1.25%
utilities .....	92	14,428,750	1.18%
<b>Grand Total.....</b>	<b>9,182</b>	<b>1,220,000,000</b>	<b>100.00%</b>

10 **LTSB Breakdown of Real Estate and Construction**

<b>SIC Codes</b>	<b>LTSB Breakdown of Real Estate and Construction</b>	<b>Amount</b>	<b>Percentage %</b>
7020.....	Professional Property Investments.....	244,742,138	57.35%
7011.....	Property Development.....	98,731,264	23.14%
4500 to 4550.....	Construction.....	23,521,661	5.51%
	Other Property.....	59,758,445	14.00%
<b>Grand Total.....</b>		<b>426,753,509</b>	<b>100.00%</b>

11      **Security Cover based on Total Borrower Debt**

<b>Lower Bound</b>	<b>Upper Bound</b>	<b>Amount</b>	<b>Concentration %</b>
0%	10%	-	0.00%
10%	20%	-	0.00%
20%	30%	39,487	0.00%
30%	40%	507,916	0.04%
40%	50%	2,754,510	0.23%
50%	60%	4,171,083	0.34%
60%	70%	9,509,973	0.78%
70%	80%	21,641,244	1.77%
80%	90%	36,561,915	3.00%
90%	100%	51,154,283	4.19%
100%	110%	80,985,736	6.64%
110%	120%	91,857,838	7.53%
120%	130%	80,849,070	6.63%
130%	140%	92,873,079	7.61%
140%	150%	91,530,456	7.50%
150%	160%	75,468,219	6.19%
160%	170%	68,373,645	5.60%
170%	180%	67,465,468	5.53%
180%	190%	58,533,967	4.80%
190%	200%	43,613,512	3.57%
200%	Greater than 200%	342,108,600	28.04%
<b>Grand Total</b>		<b>1,220,000,000</b>	<b>100.00%</b>

## 12 Distribution of Security Type

Asset Type	Original Asset Value	Indexed Asset Value	Concentration % (based on Indexed Asset Value)
Bungalow.....	29,482,793	28,592,525	0.65%
Business Unit.....	393,217,703	349,085,408	7.95%
Cash on the Side.....	-	1,669,289	0.04%
Commercial Property.....	-	7,067,892	0.16%
Debenture.....	-	4,194,550	0.10%
Factory.....	35,568,697	29,280,334	0.67%
Farm.....	552,334,029	656,226,959	14.95%
Flat.....	130,617,927	122,912,826	2.80%
Flat above shop.....	30,340,469	33,486,984	0.76%
Hotel.....	110,398,090	96,959,595	2.21%
House.....	862,558,360	836,052,674	19.05%
Land Only.....	330,787,679	363,210,709	8.28%
Licensed Prem.....	85,869,307	77,650,313	1.77%
Life Policy.....	113,401,254	113,409,654	2.58%
Loan Guarantee.....	-	9,131,968	0.21%
Maisonette.....	3,468,522	3,165,132	0.07%
Office.....	150,981,599	135,771,048	3.09%
Other - Commercial.....	1,186,359,015	1,088,651,253	24.80%
Other - Residential.....	133,487,123	128,460,515	2.93%
Restaurant.....	44,358,076	38,334,947	0.87%
Retail Property.....	-	3,686,883	0.08%
Semi detached.....	4,340,317	4,350,602	0.10%
Shop.....	271,446,901	237,126,293	5.40%
Stocks & Shares.....	-	-	0.00%
Warehouse.....	23,888,522	20,606,180	0.47%
<b>Grand Total.....</b>	<b>4,492,906,383</b>	<b>4,389,084,534</b>	<b>100.00%</b>

There will be a difference between the characteristics of the Collateral Portfolio as of the Issue Measurement Date and the Issue Date; for this reason the figures set out in the tables above are approximate.

## **Governing Law**

Each of the Collateral Loans is governed by English law.

## **Eligibility Criteria**

Each Collateral Loan or each Borrower as applicable, shall, on the Issue Measurement Date, be required to satisfy the eligibility criteria set out below (collectively, the "**Eligibility Criteria**" and each, an "**Eligibility Criterion**"):

1. The Collateral Loan was selected from a portfolio of loans to small and medium-sized enterprises ("**SME**") in the UK, originated by the Offeror in the normal course of its business.
2. The Borrower is a customer of the Offeror and selected from the Offeror's £0 million to £2 million turn-over book;
3. The Collateral Loan has been granted in accordance with the Offeror's lending policies and credit rating procedures and has been serviced in accordance with its loan underwriting and servicing criteria;
4. The Borrower is incorporated, established or has its principal place of business in the UK;
5. The Borrower is either a private limited company, a public limited company, a partnership, a trust, a foundation, a sole trader, a society, a charity or a club or any other entity which is customarily accepted as a small or medium-sized enterprise;
6. The Collateral Loan is a term loan with a stated maturity date or stated number of repayment instalments as set out in the relevant Loan Agreement;
7. Pursuant to the terms of the relevant Loan Agreement the Collateral Loan accrues interest which becomes due and payable on a monthly, quarterly or four monthly basis;
8. At least one instalment of interest due and payable to the Offeror under the relevant Loan Agreement must have been paid;
9. The Collateral Loan is not in arrears;
10. No Credit Event has occurred and is continuing in respect of the Collateral Loan;
11. The Collateral Loan is denominated in Sterling;
12. The Funded Aggregate Principal Balance of the Collateral Loan is greater than £25,000 and is lower than or equal to £3,000,000;
13. The Collateral Loan is secured;
14. The Collateral Loan has been originated after 2000 and the maturity of the Collateral Loan under the relevant Loan Agreement is no later than 3 years prior to the Final Maturity Date of the Notes;
15. The Borrower is not a group entity of the Offeror;
16. The Borrower is not a special purpose entity (unless and to the extent that the Offeror has recourse to (i) either collateral or a related operating entity of such Borrower which, in turn, is approved in accordance with the Offeror's lending policies and credit rating procedures, and (ii) the owners / controllers of the related operating entity);
17. The Borrower does not fall under the main category of SIC Code 7011 relating to development of property or property under construction and none of the Borrowers are classified in accordance with the Lloyds Banking Group internal industry classification criteria as property development and/or construction enterprises, with the exception of Borrowers which are classified in accordance with the Lloyds Banking Group internal SIC Code sub-classification 7011008 "Property, Investment Company" relating to income producing real estate; and

18. The Borrower has an LTSB internal 1 year Basel II probability of default which is not greater than 10.61%.

### **Replenishment of the Portfolio**

During the Replenishment Period the Offeror may offer to sell Additional Collateral Loans to the Issuer and the Issuer may accept such offer and may fund the purchase of Additional Collateral Loans, Unfunded Drawings and/or Further Advances made in respect of an existing Collateral Loan using Principal Receipts pursuant to the terms of the Administration Agreement and the Portfolio Offer Deed, subject to the satisfaction of the following criteria on the relevant Addition Date (assuming such funding has been made) (the "**Replenishment Criteria**"):

1. The sum of the Funded Aggregate Principal Balance of all Collateral Loans may not exceed £1.22 billion (the "**Maximum Portfolio Funded Principal Balance**");
2. The aggregate Funded Aggregate Principal Balance outstanding in relation to a single Borrower does not exceed £3,000,000;
3. The sum of the aggregate Funded Aggregate Principal Balance outstanding in relation to the 10 largest Borrowers does not exceed 2.00% of the Maximum Portfolio Funded Principal Balance;
4. The sum of the aggregate Funded Aggregate Principal Balance outstanding in relation to the 30 largest Borrowers does not exceed 5.00% of the Maximum Portfolio Funded Principal Balance;
5. The sum of the aggregate Funded Aggregate Principal Balance outstanding in relation to the 50 largest Borrowers does not exceed 7.50% of the Maximum Portfolio Funded Principal Balance;
6. The sum of the aggregate Funded Aggregate Principal Balance outstanding in relation to the 70 largest Borrowers does not exceed 9.34% of the Maximum Portfolio Funded Principal Balance;
7. The sum of the aggregate Funded Aggregate Principal Balance outstanding in relation to the 100 largest Borrowers does not exceed 12.00% of the Maximum Portfolio Funded Principal Balance;
8. The number of Borrowers in the Collateral Portfolio is equal to or greater than 6,000;
9. The Eligibility Criteria in relation to the Collateral Loan will not be breached as a result of the proposed funding by the Issuer of the applicable Unfunded Drawing or Further Advance;
10. An Additional Collateral Loan shall satisfy the Eligibility Criteria on the relevant Addition Date;
11. The sum of the Funded Aggregate Principal Balance of all Collateral Loans within the Moody's industry sector categorisation "Construction and Building" and the Fitch industry sector categorisation "Real Estate" plus "Building and Material" is equal to or less than 35% of the Maximum Portfolio Funded Principal Balance;
12. The sum of the Funded Aggregate Principal Balance of all Collateral Loans within the Moody's industry sector categorisation "Healthcare and Pharmaceuticals" and the Fitch industry sector categorisation "Healthcare" is equal to or less than 17.5% of the Maximum Portfolio Funded Principal Balance;
13. The sum of the Funded Aggregate Principal Balance of all Collateral Loans within the Moody's industry sector categorisation "Beverage, Food and Tobacco" and the Fitch industry sector categorisation "Farming and Agricultural Services" is equal to or less than 17.5% of the Maximum Portfolio Funded Principal Balance;
14. The sum of the Funded Aggregate Principal Balance of all Collateral Loans within the Moody's industry sector categorisation "Hotel, Gaming and Leisure" and the Fitch Industry sector categorisation "Lodging and Restaurants" is equal to or less than 15% of the Maximum Portfolio Funded Principal Balance;

15. The sum of the Funded Aggregate Principal Balance of all Collateral Loans in any of the other single industry categorisations is equal to or less than 10% of the Maximum Portfolio Funded Principal Balance;
16. The Weighted Average LTSB internal 1 year Basel II probability of default of the Collateral Portfolio is lower than or equal to 5.5%;
17. The Weighted Average security cover ratio of the Collateral Portfolio, in relation to first lien mortgages, is equal to or greater than 125%;
18. The Weighted Average life of the Collateral Portfolio is lower than or equal to 8.5 years;
19. The sum of the Funded Aggregate Principal Balance of all Collateral Loans in one region is equal to or less than 15% of the Maximum Portfolio Funded Principal Balance; and
20. The Weighted Average spread of the Floating Rate Collateral Loans is equal to or greater than 1.95%.

**"Floating Rate Collateral Loans"** means all Collateral Loans which are not Fixed Rate Collateral Loans".

**"Weighted Average"** means the weighted average of the relevant metric for the Collateral Loans in the Collateral Portfolio calculated as the sum of the amounts for all Collateral Loans equal to the product of, for each Collateral Loan, (a) the Funded Aggregate Principal Balance of such Collateral Loan divided by the sum of the Funded Aggregate Principal Balance of all Collateral Loans in the Collateral Portfolio, and (b) the relevant metric, as determined by the Collateral Administrator, for such Collateral Loan.



## LOAN UNDERWRITING AND ADMINISTRATION

### *Origination of Collateral Loans*

Lloyds TSB Commercial ("**Commercial**") provides tailored banking and business solutions for UK small and medium-sized enterprise borrowers ("**SMEs**") with turnovers of up to £15 million. These include sole traders, partnerships, limited companies and clubs, charities and societies. SME customers within the UK are a core client group for Lloyds TSB and the bank's commitment to the SME customer base is well illustrated by the Real FD / CBI FD's Excellence Award which Lloyds TSB received seven consecutive years in a row (2005, 2006, 2007, 2008, 2009, 2010 and 2011).

Commercial's business is dedicated to offering a responsive and supportive service based on the individual needs of its customers, helping them to grow their businesses. Commercial's product offerings are provided through relationship managers based across the UK and include business loans, business current accounts and overdrafts, credit and charge cards, payment services, business insurance, mortgages and private banking.

Banking relationships are segmented according to size and complexity, with customer treatment proposition tailored accordingly. For some of the key sectors / customer groups specialists are employed given the nature of those activities. These include Agriculture, Health Care, Property, Education, Solicitors, Club, Charity & Society, Franchising.

The following is a description of Lloyds TSB's risk assessment and approval process in relation to its SME business for the £0-2 million turnover book as at the date of this Prospectus.

Commercial's lending decisions are reached through an effective partnership of relationship management and credit expertise, combining the benefits of customer knowledge and independent specialist risk management. Commercial's credit policy is a robust framework used to direct relationship management in structuring lending proposals and underpins Commercial's loan origination process providing lending parameters and guidance such as maximum term levels, loan to value and repayment cover criteria.

The primary source of repayment for the Collateral Loans will be cash flow generated through business activity rather than the realisation of security. Any decision to lend will therefore be driven by analysis and assessment of the ability of a customer to service and repay obligations. The use of dynamic credit scoring plays an integral role in the credit approval process for all initial lending requests related to the Collateral Portfolio as well as all subsequent reviews and ongoing monitoring. The rating system - Business Dynamic Credit Scoring ("**BDCS**")- has been developed internally to assign an accurate borrower rating to each legal entity, driven by the transactional activity through the customer's bank account, as well as assign a probability of default, and is Basel compliant. All loans in the £0-2 million turnover book have been evaluated pursuant to the BDCS rating system. Ratings are automatically updated on a monthly basis and the relationship manager cannot override a rating outcome. Based on its credit policy, Commercial has a rigorous framework in place to ensure appropriate loan origination. The process consists of the following steps:

- "Fact finding and valuation of security": which represents the initial relationship building with customers including but not limited to information gathering on the purpose of lending, business plans, annual reports etc. Valuations are undertaken by a source independent of the borrower and by a person professionally qualified. For valuation of land and buildings valuers must be Royal Institute of Chartered Surveyors ("**RICS**") qualified and undertake valuations in accordance with RICS "Red Book", aside from in relation to agricultural land for which an agricultural relationship manager may provide their own valuation, subject to compliance with certain criteria including that the land is valued in accordance with the latest Valuation Office Agency data.
- "Relationship manager assessment and lending decision": the relationship manager undertakes a business and financial risk assessment for each credit application which is informed and assisted by the BDCS rating system. Relationship managers have assigned to them personal sanctioning authorities based on factors such as capability, merit, experience, business need, assessments and track record, etc. Sanctioning authorities cannot be delegated and are subject to regular detailed review. Lending within certain sectors can be excluded from the sanctioning authorities and limits can be reduced for higher risk lending.

- Lending that is approved within the relationship managers discretion must comply with credit policy, if outside the relationship manager's discretion the decision will need to be referred to a senior manager (Senior Manager Commercial) or credit sanctioning team as appropriate. In all cases where new lending is outside of credit policy this must be referred to credit sanctioning.
- "Release of Funds": Relationship managers and or credit functions ensure all terms of lending and conditions of sanctioning are adhered to before allowing the release of funds. Any exceptions to this must be approved by credit sanctioning.

Loans which are smaller than £100,000 follow a more automated sanctioning process, in line with policy.

### ***BDCS***

Business Dynamic Credit Scoring ("**BDCS**") plays an integral role in the credit approval process for all initial lending requests, subsequent reviews and ongoing monitoring. BDCS is a decision support tool, designed to give more information about customers by using account activity to assess the potential risk to the bank.

There are 10 levels of BDCS risk indicator ranging from A – J (each a "**Risk Indicator**"). A 'W' rating is displayed to the network in respect of customers where time with bank is less than 4 months as the majority of the underlying account performance is still maturing, therefore the BDCS rating is not considered fully robust. Each A – J Risk Indicator is also allocated a trend indicator:

Minus (-) - The Risk Indicator has worsened since last month

Plus (+) - The Risk Indicator has improved since last month

Equals (=) - The Risk Indicator has remained the same as last month

BDCS:

A – D: practically no risk to low risk

E – G: medium risk, occasional excesses

H – J: higher risk, loan/current account delinquency

W: new customers; less than 4 months account information

Y: Basel II Default

### ***Lending values and loan to value***

A lending value is applied to assets to be taken as security and represents a realistic view of the cover available from such security taking into account certain factors including costs of realisation. The primary consideration in all lending propositions is the ability of the borrower to repay, normally through cashflow generated by the business. Nevertheless, it is Commercial's policy that security should normally be taken over tangible assets when the customer's facilities total in excess of £10,000. There should be good and documented reasons if it is not taken. If facilities exceed £25,000 and no security is taken the facility must be formally sanctioned by the Senior Manager Commercial ("**SMC**") or Credit Sanctioning as appropriate.

The Loan to Value percentage ("**LTV**") represents the maximum amount that LBG will normally lend against the value of an asset. In certain instances, relationship managers can use their discretionary powers to lend in excess of the normal loan to value in line with the Commercial policy. Credit Sanctioning may agree a Credit Policy Exception to lend in excess of policy LTV where the particular circumstances warrant it.

Loan accounts greater than £25,000 are reviewed at least annually. A relationship manager should consider the need for a revaluation of the security at each review. Security for a loan that is being repaid satisfactorily where there are no adverse credit indicators does not need to be revalued. When new lending is to be supported by existing security, a revaluation will be considered. Collateral values are indexed quarterly (half yearly for agricultural properties).

### ***Servicing of Collateral Loans - Control & Monitoring and Debt Recovery***

Commercial has a multi-layered internal monitoring and control regime in place to monitor asset growth and to identify and manage risk concentration. The relationship manager maintains an ongoing relationship with the individual customer and ensures asset quality. Responsibility for credit oversight across all business centres lies with the SMC. The control framework ensures appropriate review (daily, monthly, quarterly and annually) is undertaken to support customers and protect the group's assets, supported by overriding portfolio monitoring. The oversight framework is provided through the completion of the Credit Quality & Procedure Check ("**CQPC**") and Lending Standards Checklist by the SMC on a monthly basis. Additional oversight is provided by the Area Managers Risk ("**AMR**").

In terms of control and monitoring a daily monitoring application identifies assets that are in excess and recommends an action to take. This excess management tool is integral to the credit process and excess reporting procedures, flagging individual customer cases to the relationship manager on a daily basis.

In addition, Customer Risk Support System ("**CRSS**") a decision support tool is used to assess potential risk for the customer and LTSB when making lending decisions, carrying out an annual review of facilities, or when risks are identified for lending within agreed facilities. CRSS produces a suite of reports based upon automated rules including transactional activity and monthly changes to BDCS. The reports stimulate review of customers who may be showing signs of distress and include triggers to move customers into the support models. Relationship managers have two weeks to take the required action while the SMC, on a monthly basis, undertakes a credit quality and procedure check for all relationship managers. All lending in excess of £25k is subject to regular review with the customer on at least an annual basis. All overdraft facilities are reviewed at least annually.

Portfolio Optimisation provides central insight into the performance of the Commercial lending portfolio, definition and guidance on credit appetite & policy along with specialist credit process and credit rating teams.

Alongside the good book (not in any sort of arrears) there are a number of support models. These are Local Support, Customer Support, Business Support and Wholesale Banking Recoveries.

Local Support is a system driven process to identify customers with a potential or actual weakness that may result in deterioration of their credit quality and ability to repay if the weakness is left uncorrected. The Local Support classification is intended as an early warning system. The relationship will remain with the relationship manager but sanction from the SMC is required for further lending, increased credit and/or renewal. Typical trigger points for Local Support are (for borrowing in excess of £2,500) a BDCS

renewal recommendation of decline, one or more arrears, any items returned unpaid (e.g. cheques) in last 60 days, etc.

The next level of support is Customer Support; it is at the discretion of a central risk function to decide to move the customer to Customer Support control. Customer Support identifies and agrees specific strategies with customers on a case by case basis, e.g. restructuring lending, organisational restructuring, and specific management support, refinancing options or an insolvency process with the ultimate transfer to Wholesale Banking Recoveries for debt recovery if required. Typical trigger points for Customer Support are e.g. (for borrowing of £5000 or more) two or more loan arrears or 10 or more returned items in the last 60 days.

Business Support Unit ("**BSU**") is the specialist support unit responsible for managing high risk and a select number of underperforming lending relationships across all Wholesale units. It typically regards the higher value (turnover and debt size) and more complex cases as determined by the Regional Support Manager within Customer Support.

Wholesale Banking Recoveries ("**WBR**") is the recovery unit within Lloyds Banking Group providing debt recovery services for the Wholesale division. WBR manages customer cases through the recovery process via recovery teams and external partners (e.g. collection agents, LPA receivers and solicitors) who pursue different recovery strategies. When a relationship fails within the Commercial network all of the customer's debt is transferred from the bank's core accounting systems to the WBR systems.

The recovery process starts with a notice to solvent customers explaining that the control of their accounts has been passed on to WBR and that engagement with WBR means such customers are required to repay their debts. Insolvent customer cases are referred to insolvency practitioners along with proof of debt. The customer initially has 14 days to respond to the notice. Thereafter a dedicated customer negotiation team attempts to contact the customer to find commercial/pragmatic solutions through immediate settlement, voluntary realisation of security/assets or repayment programmes. Repayment programmes are monitored within WBR and reviewed annually.

Upon unsuccessful negotiation, or no contact, further action depends on type of case: unsecured debt is outsourced to a debt collection agency or solicitors if an asset can be identified for recovery. For partially secured or fully secured cases solicitors or an LPA receiver may be instructed by the bank in order to realise the security. Interest may be charged on all cases and legal fees are added to the customer's account. A separate dedicated team has the responsibility for all pure property related recovery cases for Commercial (except where security is the customers' main residence and non co-operation which would be managed via litigation).

**LTSB Commercial Portfolio Information**

**1. Static Cumulative Default Rate Analysis**

For a generation of loans (being all loans originated during the same quarter in the 0-2m turnover book with an origination amount of greater than 25K), the cumulative default rate in respect of a month is calculated as the ratio of:

- (i) the cumulative defaulted principal amount based on a transfer to WBR recorded between the quarter such loans were originated and the relevant month, to
- (ii) the sum of the origination amounts of such loans.

Volume is expressed as an index number with the origination volume of Q1 2004 as the base figure.

**Cumulative default rate in % / months after origination**

Volume	Quarter of origination	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	57	60	63	66	69	72	75	78	81
100	Q1 2004	0.01%	0.09%	0.19%	0.43%	0.57%	0.97%	1.24%	1.43%	1.58%	1.68%	1.78%	2.02%	2.13%	2.33%	2.46%	2.48%	2.51%	2.53%	2.59%	2.72%	2.94%	2.99%	3.03%	3.04%	3.11%	3.20%	3.20%
128	Q2 2004	0.01%	0.09%	0.29%	0.43%	0.77%	1.00%	1.10%	1.28%	1.49%	1.70%	1.76%	1.85%	1.92%	2.02%	2.02%	2.09%	2.13%	2.21%	2.34%	2.44%	2.53%	2.61%	2.66%	2.72%	2.84%	2.86%	
139	Q3 2004	0.01%	0.08%	0.19%	0.38%	0.74%	1.07%	1.24%	1.32%	1.58%	1.68%	1.75%	1.90%	2.02%	2.09%	2.25%	2.39%	2.49%	2.58%	2.70%	2.77%	2.90%	2.93%	2.94%	3.07%	3.09%		
132	Q4 2004	0.10%	0.18%	0.43%	0.67%	0.87%	1.03%	1.36%	1.61%	1.71%	1.83%	2.04%	2.30%	2.40%	2.55%	2.59%	2.70%	2.93%	3.10%	3.28%	3.34%	3.40%	3.49%	3.54%	3.60%			
129	Q1 2005	0.01%	0.05%	0.19%	0.34%	0.45%	0.73%	0.95%	1.06%	1.40%	1.59%	1.88%	2.18%	2.26%	2.36%	2.65%	2.95%	3.12%	3.25%	3.47%	3.55%	3.68%	3.72%	3.87%				
151	Q2 2005	0.01%	0.05%	0.20%	0.38%	0.56%	0.75%	1.03%	1.28%	1.52%	1.79%	2.05%	2.19%	2.39%	2.55%	2.80%	3.02%	3.20%	3.34%	3.45%	3.51%	3.74%	3.98%					
149	Q3 2005	0.02%	0.05%	0.16%	0.38%	0.61%	0.70%	0.82%	1.05%	1.46%	1.98%	2.17%	2.25%	2.38%	2.70%	2.99%	3.24%	3.52%	3.55%	3.65%	3.75%	3.85%						
156	Q4 2005	0.02%	0.10%	0.18%	0.29%	0.69%	0.81%	0.94%	1.37%	1.66%	1.82%	2.06%	2.27%	2.56%	2.91%	3.13%	3.44%	3.53%	3.81%	3.97%	4.14%							
181	Q1 2006	0.01%	0.08%	0.30%	0.53%	0.82%	1.13%	1.43%	1.70%	1.93%	2.42%	2.75%	2.96%	3.19%	3.42%	3.81%	4.02%	4.16%	4.33%	4.49%								
214	Q2 2006	0.00%	0.04%	0.13%	0.28%	0.57%	0.85%	0.97%	1.15%	1.59%	1.95%	2.51%	2.84%	3.12%	3.47%	3.62%	3.81%	4.06%	4.33%									
204	Q3 2006	0.01%	0.06%	0.20%	0.28%	0.52%	0.72%	0.86%	1.08%	1.63%	2.11%	2.46%	2.89%	3.35%	3.49%	3.78%	3.91%	4.08%										
224	Q4 2006	0.01%	0.06%	0.13%	0.32%	0.61%	0.77%	1.02%	1.57%	2.21%	2.88%	3.47%	4.27%	4.48%	4.67%	4.93%	5.24%											
218	Q1 2007	0.01%	0.04%	0.13%	0.33%	0.57%	0.84%	1.24%	1.72%	2.08%	2.41%	2.76%	2.99%	3.20%	3.46%	3.64%												
218	Q2 2007	0.01%	0.16%	0.30%	0.46%	0.73%	1.05%	1.58%	1.97%	2.42%	2.85%	2.95%	3.31%	3.50%	3.81%													
219	Q3 2007	0.03%	0.04%	0.23%	0.49%	1.19%	1.91%	2.23%	2.96%	3.21%	3.35%	3.66%	4.15%	4.35%														
201	Q4 2007	0.01%	0.11%	0.30%	0.60%	1.11%	1.86%	2.26%	2.77%	3.11%	3.43%	3.63%	4.32%															
214	Q1 2008	0.01%	0.11%	0.46%	0.85%	1.35%	1.91%	2.68%	2.99%	3.22%	3.70%	4.11%																
259	Q2 2008	0.03%	0.18%	0.64%	1.29%	1.56%	2.09%	2.50%	2.70%	3.08%	3.58%																	
227	Q3 2008	0.04%	0.16%	0.43%	0.81%	1.29%	1.68%	2.17%	2.76%	3.23%																		
198	Q4 2008	0.07%	0.34%	0.73%	1.19%	1.48%	1.98%	1.67%	1.94%	2.52%																		
201	Q1 2009	0.03%	0.20%	0.81%	0.99%	1.09%	1.58%	2.19%																				
180	Q2 2009	0.03%	0.35%	0.72%	0.94%	1.26%	1.38%																					
188	Q3 2009	0.10%	0.27%	0.67%	0.84%	0.93%																						
165	Q4 2009	0.04%	0.42%	0.49%	0.51%																							
178	Q1 2010	0.07%	0.09%	0.11%																								
189	Q2 2010	0.00%	0.02%																									
206	Q3 2010	0.07%																										

## 2. **Static Recovery Analysis**

For a generation of defaulted loans (being all loans originated since Q1 2004 with an origination amount of greater than 25K transferred to WBR during the same quarter in the 0-2m turnover book), the cumulative relevant recovery for March 2011 is calculated as:

- (i) Realised recoveries: actual cash recoveries recorded since the quarter such loans were transferred to WBR expressed as a percentage of the cumulative defaulted principal amount,
- (ii) Estimated further recoveries: further recoveries estimated for such loans expressed as a percentage of the cumulative defaulted principal amount,
- (iii) Estimated loss: the amount remaining, after deducting the sum of realised and estimated further recoveries from the cumulative defaulted principal amount, expressed as a percentage of the cumulative defaulted principal amount.

The amounts below are the cumulative defaulted principal amounts (in GBP millions) transferred to WBR during the same quarter.

The estimated further recoveries are projections, which are subject to certain risks and uncertainties that could cause the actual recorded future recoveries to differ materially from those in the table below. The projections are prepared in good faith based on methods and data that are believed to be reasonable and accurate as at the date above, and on the basis of assumptions that are believed to be reasonable. However, these projections are not a representation or assurance of any outcome occurring.

Year		2004				2005				2006				2007		
Recoveries	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss
Q1	-	N.A.	N.A.	N.A.	2.2	59.24%	1.22%	39.54%	4.6	59.66%	0.97%	39.38%	7.9	54.66%	7.29%	38.05%
Q2	0.0	74.77%	0.00%	25.23%	1.8	41.27%	2.29%	56.44%	4.7	66.24%	1.84%	31.92%	8.8	64.83%	5.07%	30.10%
Q3	0.3	61.12%	0.00%	38.88%	4.4	57.63%	3.12%	39.25%	6.4	61.76%	1.11%	37.13%	10.5	55.41%	8.53%	36.06%
Q4	0.6	39.55%	0.01%	60.44%	5.0	64.31%	2.70%	32.99%	8.0	53.03%	8.66%	38.31%	16.4	49.00%	11.29%	39.71%
Year		2008				2009				2010						
Recoveries	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss	Amount	Realised Recoveries	Estimated Further Recoveries	Estimated Loss				
Q1	14.5	50.62%	14.16%	35.21%	40.9	32.35%	38.70%	28.94%	24.6	24.47%	49.11%	26.42%				
Q2	13.0	47.95%	18.36%	33.70%	40.1	36.43%	37.95%	25.62%	29.7	16.63%	57.79%	25.58%				
Q3	19.5	36.79%	28.42%	34.79%	38.7	36.69%	37.55%	25.77%	34.1	12.21%	63.97%	23.82%				
Q4	30.7	37.42%	30.31%	32.26%	49.3	27.43%	40.12%	32.45%	36.3	7.66%	69.94%	22.40%				

## Remarks

1. There were no defaults recorded in Q1 2004.
2. The cumulative defaulted principal amount based on a transfer to WBR recorded in Q2 2004 was ca. 41K.

### 3. Delinquencies 31-60 days, 61-90 days and past 90 days past due as a % of total assets

At a given month, the delinquency ratio is calculated as the ratio of:

(i) the outstanding principal balance of all delinquent loans in the respective overdue bucket, to

(ii) the outstanding principal balance of all facilities at the end of the same month

Year	2004			2005			2006			2007			2008			2009			2010		
	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90
Days past due	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90	31-60	61-90	>90
January	1.03%	0.56%	1.48%	2.42%	1.16%	4.45%	2.16%	1.18%	3.77%	1.88%	1.34%	3.40%	2.25%	0.97%	3.63%	2.19%	1.06%	3.75%	1.96%	0.91%	3.36%
February	5.34%	0.59%	1.89%	2.14%	1.23%	3.99%	1.82%	1.13%	3.85%	1.91%	0.89%	3.56%	1.96%	1.13%	3.66%	1.71%	1.16%	3.72%	1.77%	1.03%	3.51%
March	3.81%	3.25%	2.34%	2.60%	0.93%	4.41%	2.29%	0.89%	3.97%	2.02%	0.92%	3.44%	2.11%	1.21%	3.56%	1.71%	0.83%	3.97%	1.61%	0.80%	3.67%
April	3.35%	2.06%	4.04%	2.21%	1.20%	3.83%	2.14%	1.26%	4.00%	1.79%	1.04%	3.55%	2.08%	1.03%	3.57%	1.64%	0.75%	3.83%	1.32%	0.77%	3.63%
May	2.27%	1.11%	4.34%	1.98%	1.07%	4.23%	1.72%	0.93%	4.22%	2.08%	0.87%	3.68%	2.20%	1.19%	3.57%	1.80%	0.75%	3.71%	1.45%	0.72%	3.62%
June	2.11%	1.06%	3.41%	1.97%	0.92%	3.86%	1.78%	0.84%	4.09%	1.85%	1.01%	3.55%	1.80%	1.15%	3.69%	1.70%	0.87%	3.51%	1.32%	0.67%	3.50%
July	2.34%	1.09%	3.49%	2.15%	1.00%	3.79%	1.85%	0.84%	3.94%	1.83%	0.90%	3.52%	1.96%	0.94%	3.68%	1.63%	0.74%	3.50%	1.29%	0.57%	3.35%
August	2.32%	1.07%	3.44%	2.23%	1.05%	3.52%	2.01%	0.83%	3.84%	2.05%	0.96%	3.43%	1.95%	1.15%	3.69%	1.40%	0.91%	3.40%	1.19%	0.58%	3.20%
September	2.17%	1.13%	3.81%	1.93%	1.09%	3.61%	1.87%	0.94%	3.61%	2.11%	0.96%	3.52%	1.87%	1.03%	3.80%	1.38%	0.65%	3.35%	1.10%	0.51%	3.08%
October	2.15%	1.00%	3.98%	1.92%	1.04%	3.63%	1.73%	0.84%	3.56%	1.96%	0.99%	3.69%	2.22%	1.04%	3.73%	1.36%	0.74%	3.33%	1.02%	0.50%	2.85%
November	1.93%	1.04%	4.18%	2.08%	0.89%	3.89%	1.78%	0.75%	3.44%	1.96%	0.95%	3.66%	2.00%	1.15%	3.77%	1.37%	0.71%	3.26%	1.04%	0.43%	2.76%
December	2.21%	1.00%	4.08%	2.29%	1.19%	3.68%	2.05%	0.82%	3.43%	1.91%	1.20%	3.36%	1.95%	0.92%	3.97%	1.74%	0.73%	3.19%	1.24%	0.64%	2.45%



**4. Risk assessment: low to medium risk and high risk as a % of total assets**

Year	2007		2008		2009		2010	
Risk assessment	low/medium	high	low/medium	high	low/medium	high	low/medium	high
January	86.07%	13.93%	86.59%	13.41%	84.72%	15.28%	86.05%	13.95%
February	85.80%	14.20%	86.16%	13.84%	84.67%	15.33%	84.91%	15.09%
March	85.95%	14.05%	86.15%	13.85%	84.63%	15.37%	85.03%	14.97%
April	86.21%	13.79%	86.21%	13.79%	85.01%	14.99%	85.36%	14.64%
May	85.93%	14.07%	86.13%	13.87%	85.29%	14.71%	85.51%	14.49%
June	86.12%	13.88%	86.13%	13.87%	85.66%	14.34%	85.78%	14.22%
July	86.62%	13.38%	86.22%	13.78%	85.94%	14.06%	86.12%	13.88%
August	86.62%	13.38%	86.00%	14.00%	86.26%	13.74%	86.22%	13.78%
September	86.77%	13.23%	85.82%	14.18%	86.40%	13.60%	86.31%	13.69%
October	86.82%	13.18%	85.43%	14.57%	86.28%	13.72%	86.63%	13.37%
November	86.78%	13.22%	84.87%	15.13%	86.80%	13.20%	86.74%	13.26%
December	86.77%	13.23%	84.64%	15.36%	86.52%	13.48%	86.81%	13.19%

**5. Total Assets LTSB £0 to £2 million turn-over book**

Quarter	Total Assets (£m)
Q1 2004	5,451.4
Q2 2004	5,585.6
Q3 2004	5,758.4
Q4 2004	5,805.6
Q1 2005	6,043.4
Q2 2005	6,234.1
Q3 2005	6,407.1
Q4 2005	6,552.4
Q1 2006	6,847.5
Q2 2006	7,079.4
Q3 2006	7,343.2
Q4 2006	7,617.8
Q1 2007	7,890.6
Q2 2007	8,239.3
Q3 2007	8,498.9
Q4 2007	8,678.3
Q1 2008	9,016.1
Q2 2008	9,448.4
Q3 2008	9,886.5
Q4 2008	10,081.3
Q1 2009	10,315.4
Q2 2009	10,495.9
Q3 2009	10,763.6
Q4 2009	10,753.6
Q1 2010	11,007.4
Q2 2010	11,339.9
Q3 2010	11,595.0
Q4 2010	11,483.5

## PORTFOLIO OFFER DEED AND DECLARATION OF TRUSTS

### Introduction

Under the Portfolio Offer Deed the Offeror will, on the Issue Date or on an Addition Date, offer and the Issuer may accept from the Offeror an unnotified assignment of the Offeror's Benefit in the Collateral Loans (including any Further Advances) by payment to the Offeror of the acceptance price (which shall be the Issue Date Purchase Price or an Addition Date Purchase Price, as applicable).

In addition, the Offeror will, on the Issue Date, declare trusts pursuant to the Declaration of Trusts (as described below). Payment of the Issue Date Purchase Price by the Issuer shall also constitute the payment payable by the Issuer in respect of the declaration of trusts in respect of the Related Security. The assignment of the Offeror's Benefit in the Collateral Loans and the declaration of trusts in respect of the Offeror's Benefit in the Related Security will not be notified to the Borrowers, except (in relation to the assignment of the Collateral Loans) by way of a notice of equitable assignment upon the occurrence of an Assignment Notification Event.

Before such notice is given, the Borrowers may discharge their payment obligations under the Collateral Loans by making payments in respect of such obligations to the Offeror. Upon notification, the Borrowers will be informed to make payments to the Issuer (or the Note Trustee (as the case may be)) and can therefore only discharge their payment obligations under the Collateral Loans by making payments in respect of such obligations to the Issuer (or the Note Trustee (as the case may be)).

Related Security may be taken by the Offeror in relation to some Collateral Loans the Benefit of which will not be transferred to the Issuer. Instead, the Offeror will (i) declare a trust over its Benefit in any Related Security which is an All Moneys Security or other type of security where both the Offeror and Issuer have beneficial interests for the benefit of the Issuer and itself (each as a beneficiary) in relation to their respective interests (which in respect of the Issuer, shall correspond to its beneficial interest in the relevant Collateral Loan) and (ii) declare a trust over its Benefit in Other Related Security for the benefit of the Issuer absolutely, pursuant to the Declaration of Trusts. In most cases, Related Security takes the form of an unlimited or all moneys security in that such security purports to secure the repayment of all present and future sums that may be advanced by the Offeror to the relevant Borrower, including sums that do not constitute a Collateral Loan (the "**Associated Debt**") as well as securing the repayment of the relevant Collateral Loan (the "**All Moneys Security**"). An All Moneys Security may be enforceable on the occurrence of a default by a Borrower either under the Collateral Loan or any Associated Debt secured by the same All Moneys Security. Upon enforcement of any Related Security which is an All Moneys Security or other type of security where both the Offeror and Issuer have beneficial interests, the Offeror (being the security holder of such Related Security and trustee under the relevant trust) will distribute, from the enforcement proceeds, all available amounts to the Issuer (in respect of the Collateral Loans) and the Offeror (in respect of the Associated Debt) on a *pro rata* basis.

Under the Declaration of Trusts, the Offeror (acting as trustee) will take joint instructions from both beneficiaries in respect of any actions to be taken by it in respect of the Related Security which is an All Moneys Security or other type of security where both the Offeror and the Issuer have beneficial interests. The Offeror (acting as trustee) will also grant a power of attorney under the Declaration of Trusts to the Issuer and the Note Trustee which entitles them to take certain actions in respect of the Related Security upon the occurrence of a Trust Power of Attorney Event. In addition, the Offeror and the Issuer, in their respective capacity as beneficiaries of the trust, will enter into a deed that sets out the contractual arrangements amongst them in respect of certain commercial decisions relating to the Related Security (the "**Beneficiaries Deed**"). The Issuer and the Offeror (as beneficiaries under the Declaration of Trusts) will agree in the Beneficiaries Deed that, prior to the occurrence of an Assignment Notification Event, they will give consent to a proposed course of action in relation to the Related Security by the Offeror (acting as trustee) so long as such action is in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans. Following the occurrence of an Assignment Notification Event (which for these purposes only, does not include a Trust Power of Attorney Event), to the extent that (i) the Issuer (as assignee of the relevant Collateral Loans) wishes certain actions to be taken in respect of the Related Security in respect of such Collateral Loans, it would be necessary for the Offeror (in its capacity as the co-beneficiary under the Declaration of Trusts) to give its consent, the Offeror has the discretion whether or not to give such consent (*provided that* such consent shall not be unreasonably withheld and *provided further that*, if such proposed actions are inconsistent with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans, and the

Offeror withheld its consent, such withholding of consent shall not be considered as unreasonable); and (ii) the Offeror (in its capacity as the co-beneficiary under the Declaration of Trusts) wishes certain actions to be taken in respect of the Related Security in respect of any Collateral Loans, the Issuer will give consent to such proposed actions so long as such actions are in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans. In respect of Other Related Security, the Issuer will agree in the Portfolio Offer Deed that, prior to the occurrence of a Trust Power of Attorney Event, the Issuer (i) will give consent to a proposed course of action in relation to the Other Related Security by the Offeror (acting as trustee) so long as such action is in accordance with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans; and (ii) will not give instructions to the Offeror (in its capacity as the trustee) to the extent that such instructions are inconsistent with the normal business practice of the Offeror acting as a reasonable and prudent lender of SME loans.

Following the occurrence of a Trust Power of Attorney Event, the Issuer will be entitled to use the power of attorney given to it by the Offeror (in the capacity as trustee) under the Declaration of Trusts to do all further things and take all necessary actions in relation to the Related Security in the name of the Offeror (as trustee under the Declaration of Trusts) to the extent that the Offeror (as trustee under the Declaration of Trusts) fails to do such things or take such actions.

The Issuer will be entitled to receive all proceeds in respect of the Collateral Loans following the Issue Date up to the Issuer Share. The Offeror will undertake in the Portfolio Offer Deed that it will transfer to the Issuer an amount equal to any amounts expected to be received by it in respect of, or in connection with, the Collateral Loans up to the Issuer Share.

### **Purchase price of Collateral Loans and consideration for Related Security**

#### *Issue Date Purchase Price*

As part of the payment for the assignment of the Offeror's Benefit under the Collateral Loans and the trusts declared by the Offeror in respect of the Benefit under the Related Security (if any), the Issuer will pay an acceptance price (the "**Issue Date Purchase Price**") to the Offeror on the Issue Date. The Issuer will apply a portion of the net proceeds from the issue of the Notes towards payment of the Issue Date Purchase Price.

#### *Replenishment*

During the Replenishment Period, the Offeror may offer to sell Additional Collateral Loans to the Issuer and the Issuer may accept such offer and may fund the purchase of Additional Collateral Loans, Unfunded Drawing and/or Further Advances made in respect of an existing Collateral Loan using Principal Receipts to acquire (by way of an unnotified equitable assignment) Additional Collateral Loans, or to fund Unfunded Drawings or Further Advances, each subject to the satisfaction of the Replenishment Criteria. For the avoidance of doubt, Unfunded Drawings and Further Advances are automatically assigned to the Issuer upon acquisition of the relevant Collateral Loan and prior to their funding by the Issuer. On each Note Calculation Date during the Replenishment Period, the Cash Administrator (on behalf of the Issuer) shall inform the Collateral Administrator of the amounts available to the Issuer in the relevant Quarterly Interest Period for such purposes.

#### *Addition Date Purchase Price*

On any Business Day during the Replenishment Period and subject to the Replenishment Criteria:

##### a) Unfunded Drawings

the Issuer may utilise Principal Receipts to fund all or part of an Unfunded Drawing up to an amount equal to the Aggregate Principal Balance of such Unfunded Drawing (plus, in the case of Unfunded Drawings under Fixed Rate Collateral Loans only, accrued but unpaid interest thereon) ("**Unfunded Drawing Addition Date Purchase Price**"). The date on which such Unfunded Drawing Addition Date Purchase Price is paid by the Issuer will be an Addition Date in relation to such Unfunded Drawing.

For the avoidance of doubt an Unfunded Drawing relates to that part of a Collateral Loan which is not funded by the Issuer on the Issue Date, or, as the case may be, the relevant Addition Date.

b) Further Advances

upon the grant of a Further Advance, the Issuer may utilise Principal Receipts in order to fund all or part of such Further Advance up to an amount equal to the Aggregate Principal Balance in respect of such Further Advance (the "**Further Advance Addition Date Purchase Price**"). The date on which such Further Advance Addition Date Purchase Price is paid by the Issuer will be an Addition Date in relation to such Further Advance.

c) Additional Collateral Loans

the Offeror may make an offer to sell a loan to the Issuer to be included in the Collateral Portfolio. The Issuer may accept this offer by instructing the Cash Administrator to utilise Principal Receipts to pay an amount equal to all or a part of the Aggregate Principal Balance of such Additional Collateral Loan (plus, in the case of Fixed Rate Collateral Loans only, accrued but unpaid interest thereon) (the "**Additional Collateral Loan Addition Date Purchase Price**", and together with the Unfunded Drawing Addition Date Purchase Price and the Further Advance Addition Date Purchase Price, the "**Addition Date Purchase Price**"). If the Issuer accepts the offer, the relevant Additional Collateral Loan shall form part of the Collateral Portfolio on the relevant Addition Date.

*Deferred Purchase Price*

The Issuer's obligation to pay the Deferred Purchase Price will arise to the extent that on the Issue Date or, as applicable, the Addition Date, the amount of Issue Date Purchase Price or, as the case may be, Addition Date Purchase Price paid by the Issuer to the Offeror, in respect of a Collateral Loan (which, for the avoidance of doubt, shall include an Additional Collateral Loan and any Further Advance), is less than an amount equal to the Aggregate Principal Balance of such Collateral Loan (plus accrued but unpaid interest in respect thereof) on the Issue Date or, as the case may be or the Addition Date.

Deferred Purchase Price shall be payable by the Issuer to the Offeror from Principal Receipts. This payment shall be made outside and not subject to the relevant Priority of Payments, on any Business Day.

In addition, the Issuer will also transfer to the Offeror, as Deferred Purchase Price, any prepayment fees or penalties, waiver fees, late payment fees, commitment fees and all other fees and commissions received by the Issuer in respect of a Collateral Loan outside, and not subject to, the relevant Priority of Payments.

For the avoidance of doubt, to the extent that Interest Receipts are received in respect of a Collateral Loan where any portion of such Collateral Loan is an Unfunded Drawing, such Interest Receipts shall be treated as Revenue Available Funds of the Issuer up to an amount equal to the Issuer Share of such Interest Receipts. The remainder of such Interest Receipts shall be paid by the Issuer to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant Priority of Payments.

To the extent that any Collateral Loan is sold to the Offeror or a third party in circumstances described in sections *Repurchase of Individual Collateral Loans*, *Sale of Collateral Loans by the Note Trustee following Enforcement*, *General Call Option*, *Ratings Downgrade Call Option*, *Clean-Up Call Option*, *Regulatory Call Option* or *Redemption for Tax Reasons* below, the Issuer (or, as the case may be, the Note Trustee) shall retain the Issuer Share of the proceeds in respect of such sale and shall transfer the remainder of such proceeds to the Offeror as Deferred Purchase Price.

The Cash Administrator shall be responsible for determining the Deferred Purchase Price in accordance with the provisions of the Portfolio Offer Deed and the Administration Agreement.

*Additional Deferred Purchase Price Provisions in relation to Further Advances*

Upon the grant of a Further Advance, the Issuer will be under an obligation to pay to the Offeror further payment equal to the Aggregate Principal Balance in respect of such Further Advance. For the avoidance of doubt, once the Replenishment Period has expired, the Issuer will not utilise Principal Receipts received by it during the relevant Note Calculation Period to fund the payment for such Further Advance. Instead, such payment will be paid by the Issuer by way of Deferred Purchase Price from principal repayments, prepayments, recoveries and sale proceeds received in respect of such Further Advance in accordance with the following provisions.

To the extent that principal repayments and/or prepayments and/or recoveries are received in respect of a Delayed Draw Obligation where a Further Advance has been made, such principal repayments and/or prepayments amounts and/or recoveries will be treated as Replenishment/ Redemption Available Funds of the Issuer up to an amount corresponding to the Issuer Share of such principal repayments and/or prepayments and/or recoveries. The remainder of such principal repayments and/or prepayments and/or recoveries shall be paid by the Issuer to the Offeror as Deferred Purchase Price. The Deferred Purchase Price shall be paid by the Issuer outside, and not subject to, the relevant Priority of Payments.

For the avoidance of doubt, to the extent that Interest Receipts are received in respect of a Delayed Draw Obligation where a Further Advance has been made, such Interest Receipts shall be treated as Revenue Available Funds of the Issuer up to an amount equal to the Issuer Share of such Interest Receipts. The remainder of such Interest Receipts shall be paid by the Issuer to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant Priority of Payments.

### **Representations and warranties**

The Portfolio Offer Deed will contain representations and warranties to be given by the Offeror to the Issuer on the Issue Date and the relevant Addition Date (as applicable). Neither the Issuer nor the Note Trustee has carried out any searches, inquiries or independent investigation of the type which a prudent purchaser would normally be expected to carry out. Subject to agreed exceptions and materiality qualifications, the Offeror's material asset representations and warranties in respect of Collateral Loans will include warranties as to the following:

- (a) The Collateral Loans satisfy the Eligibility Criteria on the Issue Measurement Date and the Replenishment Criteria on the relevant Addition Date (as applicable).
- (b) The Offeror has good title to, and absolute unencumbered legal and beneficial ownership of all Benefit in relation to each Collateral Loan and its Related Security (if any) (subject to any prior encumbrances that are permitted pursuant to the loan terms and noted in initial variations).
- (c) There are no provisions in the Loan Agreements that prohibit the Offeror from assigning the Benefit of the Collateral Loans to the Issuer and declaring a trust over their Related Security (if any).
- (d) Any assignment of the Benefit of the Collateral Loans effected in consequence of the acceptance of the offer made pursuant to the Portfolio Offer Deed will be effective to transfer full, unencumbered beneficial title to the Collateral Loans (subject to any prior encumbrances that are permitted pursuant to the loan terms and noted in initial variations) to the Issuer.
- (e) Each Loan Agreement is governed by the laws of England and Wales.
- (f) To the best of the Offeror's knowledge, no Borrower is in any material breach of any provision of the relevant Loan Agreements, including without limitation in relation to the payment of amounts due and payable under any of the Collateral Loans.
- (g) The Collateral Loans offered by the Offeror to the Issuer pursuant to the Portfolio Offer Deed are, at the time of the offer, "financial assets" of the Issuer as defined in International Accounting Standard 32 (IAS 32).
- (h) Each of the Collateral Loans was originated by LTSB and at the time of each such origination LTSB was a "bank" as defined in section 991 of the Income Tax Act 2007 (or any applicable statutory antecedent).
- (i) All Collateral Loans and their Related Security (if any) are legal, valid, binding and enforceable obligations, subject to the usual legal opinion reservations and qualifications for loans/security of this type.
- (j) The Offeror complied with all applicable laws and regulations in force in originating the Collateral Loans at the time of origination, including know your client requirements and money laundering laws.
- (k) The Collateral Loans meet the criteria for amortised cost treatment under IFRS 9 (October 2010).

## Assignment Notification Events

Each of the following events is an "Assignment Notification Event":

- (a) the Offeror fails in any material respect to duly perform, or comply with, any of its payment obligations under the Portfolio Offer Deed or under any of the other Transaction Documents to which it is a party and such failure, if capable of being remedied, is not remedied within ten (10) Business Days after notice thereof; or
- (b) an order is made or an effective resolution passed for the winding up of the Offeror; or
- (c) the Offeror ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or
- (d) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the Offeror under any applicable liquidation, administration reorganisation (other than a reorganisation where the Offeror is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the Offeror or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the Offeror and in any of the foregoing cases it is not discharged within 15 London business days; or if the Offeror initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness; or
- (e) the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror cease to be rated at least (i) Baa3 by Moody's or (ii) BBB- by Fitch (the "**Notification Required Ratings**"); or
- (f) it becomes unlawful for the Offeror to perform all or a material part of its obligations under the Transaction Documents in such a manner that this would have a material adverse effect on its ability to perform such obligations.

Each of the events described in items (b), (c) and (d) above is a "**Trust Power of Attorney Event**".

If an Assignment Notification Event occurs, the Offeror undertakes to forthwith notify in the manner provided for in the Portfolio Offer Deed the relevant Borrowers and any other related party indicated by the Issuer and/or the Note Trustee of the equitable assignment of the Collateral Loans and the Borrowers will be instructed to make payments into an account of the Issuer instead of the Collection Accounts.

The Issuer or, following the delivery of an Enforcement Notice, the Note Trustee, on behalf of the Issuer, shall be entitled to effect such notification itself for which the Offeror, to the extent required, will grant an irrevocable power of attorney to the Issuer and the Note Trustee in the Portfolio Offer Deed.

If a Trust Power of Attorney Event occurs, the Issuer or, following the delivery of an Enforcement Notice, the Note Trustee, on behalf of the Issuer, shall be entitled to do all further things and take all necessary actions in relation to the Related Security in the name of the Offeror (as trustee under the Declaration of Trusts) to the extent that the Offeror (as trustee under the Declaration of Trusts) fails to take the required actions for which the Offeror (as trustee under the Declaration of Trusts) will grant an irrevocable power of attorney to the Issuer and the Note Trustee in the Declaration of Trusts.

### **Issuer not to dispose of Collateral Loans**

The Issuer may not dispose of the Collateral Loans (or any Related Security), except to comply with its obligations under the Notes in certain circumstances and as further provided in the Portfolio Offer Deed. If the Issuer sells the Collateral Loans in accordance with the Portfolio Offer Deed, it will sell such Collateral Loans to the Offeror.

### **Repurchase of individual Collateral Loans**

Following the sale and assignment of the Collateral Loans to the Issuer and the declaration of trusts in respect of the Related Security (if any), the Offeror may (and in some circumstances shall) offer to repurchase the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans in accordance with the Portfolio Offer Deed including in the following circumstances:

- (a) the Offeror may offer to repurchase the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if the Offeror notifies the Issuer and the Cash Administrator that it has determined that some of the Collateral Loans may be refinanced on terms more advantageous than those provided by the Notes; or
- (b) the Offeror may repurchase the relevant Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if the Offeror intends to sell, sub-participate, create a beneficial interest in, dispose of or enter any analogous transaction with respect to any Collateral Loan or part thereof to a third party if such action is necessary or desirable from the point of view of a reasonably prudent lender or if the Offeror is required to dispose of any Collateral Loans or part thereof as a result of the implementation of the Restructuring Plan; or
- (c) the Offeror may repurchase the relevant Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if the relevant Collateral Loan has become a Credit Impaired Obligation; where

**"Credit Impaired Obligation"** means any Collateral Loan which, (i) in the opinion of the Collateral Administrator (a) has a significant risk of declining in credit quality and, with the lapse of time, may become a Defaulted Collateral Loan, or (b) is declining in credit quality, or (ii) is a Defaulted Collateral Loan; or

- (d) the Offeror shall repurchase the relevant Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans if it is determined that any asset representations and warranties given by the Offeror pursuant to the Portfolio Offer Deed in respect of such Collateral Loans was breached at the Issue Date or the relevant Addition Date (as applicable).

Any Collateral Loan which has become a Defaulted Collateral Loan during a Note Calculation Period, and which is intended to be repurchased by the Offeror (which repurchase for the avoidance of doubt, shall be at par) on or before the relevant Note Payment Date, shall not be treated as a Defaulted Collateral Loan but instead shall be treated in accordance with limb (i) of the definition of Credit Impaired Obligation.

In the above circumstances, the purchase price to be paid by the Offeror shall be the aggregate amount of the Aggregate Principal Balance of such Collateral Loans together with accrued and unpaid interest up to but excluding the date of repurchase and re-assignment of such Collateral Loan. The Issuer Share of all proceeds from a repurchase effected under paragraph (c)(ii) above shall be treated as Interest Receipts. In relation to a repurchase effected under paragraph (a), (b), (c)(i) and (d) above, the Issuer Share of the Aggregate Principal Balance of such Collateral Loans shall be treated as Principal Receipts and (A) prior to the expiry of the Replenishment Period, may be utilised by the Collateral Administrator to fund the purchase of the Offeror's Benefit under Additional Collateral Loans, Further Advances and/or Unfunded Drawings subject to the satisfaction of the relevant Replenishment Criteria and (B) following the expiry of the Replenishment Period, shall be applied to redeem the Notes in accordance with the relevant Priority of Payments and the Issuer Share of the relevant accrued and unpaid interest of such Collateral Loans shall be treated as Interest Receipts. The remainder of any proceeds from such repurchase shall be repaid by the Issuer to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant



Priority of Payments. There will be certain limits in relation to the repurchase of Collateral Loans described in (a) and (b) above. The Offeror shall not repurchase Collateral Loans in circumstances described in (a) and (b) above to the extent that the Issuer Share of the proceeds paid by the Offeror in each Transaction Year would exceed 3% (the "**Annual Limit**") of the aggregate amount of the Funded Aggregate Principal Balance of the entire Collateral Portfolio as at the Issue Date. However, in relation to the repurchase of Collateral Loans described in (b) above, the Offeror shall be permitted to repurchase Collateral Loans in addition to the Annual Limit as a result of the implementation of the Restructuring Plan to the extent required by the relevant competent regulatory authority.

"**Transaction Year**" means each full year commencing on (and including) 27 July (but excluding) 27 July in the next following calendar year.

#### ***Sale of Collateral Loans by the Note Trustee following Enforcement***

If, as a result of any Event of Default under the Notes, the Security is enforced by or on behalf of the Note Trustee and in relation to which the Collateral Loans and the Issuer's beneficial interest in respect of the Related Security (if any) are disposed of by or on behalf of the Note Trustee, the Note Trustee shall use its reasonable endeavours to ensure that the following provisions will apply:

- (a) if the Collateral Loans are sold and re-assigned to the Offeror, the purchase price shall be calculated as set out in the paragraph (*General Call Option*) below; and
- (b) if the Collateral Loans are sold to any third party, the purchase price shall be the Minimum Third Party Purchase Price.

The Note Trustee shall be entitled to appoint a Receiver and such Receiver may sell the Collateral Loans and dispose of the Issuer's beneficial interest in respect of the Related Security (if any) subject to the provisions of the Trust Deed and relevant statutes. The Note Trustee or any Receiver appointed by it may not be able to sell the Collateral Loans and dispose of the Issuer's beneficial interest in respect of the Related Security (if any) to any third party at the Minimum Third Party Purchase Price in which case the Note Trustee or any Receiver appointed by it shall not be precluded from selling the Collateral Loans and disposing of the Issuer's beneficial interest in the Related Security (if any) at a price below the Minimum Third Party Purchase Price. See further the section entitled *Risk Factors – The Notes – Maturity Risk*.

The Issuer Share of any proceeds from such disposal shall be applied to redeem the Notes in accordance with the relevant Priority of Payments. The remainder of any proceeds from such disposal shall be repaid by the Issuer or the Note Trustee, as applicable, to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant Priority of Payments.

#### **General Call Option**

The Offeror may, without the obligation to do so, repurchase and accept assignment of all (but not only part of) the Collateral Loans then outstanding and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date after the Class A1 Notes and the Class A2 Notes have been repaid in full *provided that* the Offeror has notified the Issuer and the Note Trustee on a date that is no less than 10 and no more than 30 Business Days before the Note Payment Date on which it intends to exercise the General Call Option, and if the Offeror exercises its option to purchase the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any), the Issuer shall, in accordance with Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*) redeem the Notes on the same Note Payment Date.

The purchase price of the Collateral Loans (other than Defaulted Collateral Loans) and the Issuer's beneficial interest in the Related Security (if any) will be the sum of the aggregate amount of the Aggregate Principal Balance in respect of the Collateral Loans (other than Defaulted Collateral Loans) together with any accrued interest up to but excluding the date of repurchase and re-assignment of the relevant Collateral Loans and the purchase price of the Defaulted Collateral Loans and the Issuer's beneficial interest in the Related Security (if any) will be equal to the sum of an amount that would allow the Issuer to pay all amounts of principal and interest due on the relevant Note Payment Date in respect of the Rated Notes, in each case, plus any costs incurred by the Issuer in effecting and completing such sale and re-assignment, which shall be paid by the Offeror on the date of such sale and re-assignment. The Issuer Share of any proceeds from such repurchase shall be treated as Principal Receipts and shall be applied to redeem the Notes in accordance with the relevant Priority of Payments. The remainder of any

proceeds from such repurchase shall be repaid by the Issuer to the Offeror as Deferred Purchase Price outside, and not subject to, the relevant Priority of Payments.

### **Ratings Downgrade Call Option**

The Offeror may, without the obligation to do so, give notice to the Issuer that it intends to repurchase and accept assignment of all (but not only part of) the Collateral Loans then outstanding and may effect such repurchase and re-assignment on any Business Day specified in such notice if the Offeror fails to comply with the Notification Required Ratings and if the Offeror exercises its option to purchase the Collateral Loans, the Issuer shall, in accordance with Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*) redeem the Notes on such Business Day.

The last paragraph of the section *General Call Option* above shall apply to the Ratings Downgrade Call Option other than the reference to "Note Payment Date" in that paragraph which shall be "Business Day" for the purposes of the Ratings Downgrade Call Option.

### **Clean-Up Call Option**

The Offeror may, without the obligation to do so, repurchase and accept re-assignment of all (but not only part of) the Collateral Loans then outstanding on each Note Payment Date on which the aggregate amount of the Aggregate Principal Balance of the Collateral Loans is less than 10 per cent. of the Aggregate Principal Balance of the Collateral Loans forming part of the portfolio on the Issue Date, *provided that* the Offeror has notified the Issuer and the Note Trustee on a date that is no less than 10 and no more than 30 Business Days before the Note Payment Date on which it intends to exercise the Clean-Up Call Option and if the Offeror exercises its option to purchase the Collateral Loans, the Issuer shall, in accordance with Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*) redeem the Notes on the same Note Payment Date.

The last paragraph of the section *General Call Option* above shall apply to the Clean-Up Call Option.

### **Regulatory Call Option**

The Offeror may, without the obligation to do so, repurchase and accept assignment of all (but not only part of) the Collateral Loans then outstanding on a Note Payment Date if there has been a Regulatory Change *provided that* the Offeror has notified the Issuer and the Note Trustee on a date that is no less than 10 and no more than 30 Business Days before the Note Payment Date on which it intends to exercise the Regulatory Call Option and if the Offeror exercises its option to purchase the Collateral Loans, the Issuer shall, in accordance with Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*) redeem the Notes on the same Note Payment Date.

The last paragraph of the section *General Call Option* above shall apply to the Regulatory Call Option.

### **Redemption for tax reasons**

If the Issuer exercises its option or, as the case may be, is under an obligation to redeem the Notes for tax reasons in accordance with Condition 7.9 (*Redemption for Tax Reasons*), the Issuer, pursuant to the Portfolio Offer Deed, undertakes to sell the Collateral Loans and its beneficial interest in the Related Security (if any) to the Offeror. The Offeror shall within a period of no less than 15 and no more than 30 Business Days inform the Issuer whether it will repurchase the Collateral Loans. The Issuer Share of the purchase price of such Collateral Loans and its beneficial interest in the Related Security (if any) should at least be an amount that would enable the Issuer to deliver the certificate referred to in Condition 7.9 (*Redemption for tax reasons*).

### **Cash Collateral and Set-Off Amounts**

The Offeror will represent in the Portfolio Offer Deed that no stamp duty, registration, stamp duty reserve tax or similar tax will be paid on, in relation to, or in respect of any agreement or transaction effected by or pursuant to, the Portfolio Offer Deed. The Offeror will undertake to indemnify the Issuer for any losses incurred by the Issuer if the representation proves to be untrue as at the Issue Date and the Issuer is required by the Tax Authority to pay such tax (the "**Required Tax Payment**").

The Portfolio Offer Deed provides that if a Borrower has invoked a right of set-off for amounts due to it by the Offeror against amounts payable by it under the relevant Collateral Loan and, as a consequence thereof, the Issuer has not received the amount which it is entitled to receive in respect of such Collateral Loan, the Offeror may reimburse the Issuer on the next Business Day in an amount equal to the difference between the amount which the Issuer would have received in respect of the relevant Collateral Loan if no set-off had taken place and the amount actually received by the Issuer in respect of such Collateral Loan, in each case, subject to the Issuer Share (the "**Set-Off Amount**").

In the event the Offeror elects not to reimburse the Issuer in respect of a Set-Off Amount in accordance with the Portfolio Offer Deed and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount, the Issuer shall write down the Principal Amount Outstanding of the Class D Notes by an amount corresponding to the Set-Off Amount owed to the Issuer by the Offeror.

If the Offeror's credit ratings have fallen below the Potential Set-Off Required Ratings, to secure its obligations to make payments equal to any Required Tax Payment and mitigate any Set-Off Shortfall, the Offeror has an obligation to advance by way of loan advances under the Offeror Indemnity Loan Facility Agreement, on a regular basis, Cash Collateral up to the Required Amount. Any such Cash Collateral advanced by the Offeror Indemnity Loan Facility Provider shall be transferred to the Cash Collateral Account and the Issuer shall in accordance with the Trust Deed create a security interest in favour of the Note Trustee over such Cash Collateral.

The Issuer shall, on any Note Payment Date, have the right to apply amounts from such Cash Collateral towards the payment of the Set-Off Amount and/or the Required Tax Payment as at the relevant Note Payment Date only if the same amount is not paid by the Offeror to the Issuer. In case of Excess Cash Collateral, the Issuer shall make a repayment under the Offeror Indemnity Loan Facility Agreement in an amount equal to the Excess Cash Collateral (if applicable). Any such principal payment by the Issuer to the Offeror of an amount equal to the Excess Cash Collateral shall be made outside, and not subject to, the Priority of Payments. Any interest accruing on the Cash Collateral shall be paid by the Issuer to the Offeror outside, and not subject to, the Priority of Payments.

## COLLATERAL ADMINISTRATION AND CASH ADMINISTRATION

### Introduction

The Collateral Administrator and the Cash Administrator will manage funds received in accordance with the Administration Agreement. The Cash Administrator and the Collateral Administrator will act as agents of the Offeror and the Issuer and will take instructions from each of them, as appropriate (*provided that*, at any time after an Enforcement Notice has been delivered, the Cash Administrator and Collateral Administrator shall act on the instructions of the Note Trustee only).

The Collateral Administrator is required to advise the Issuer on the purchase of proposed Additional Collateral Loans including an evaluation of whether the Replenishment Criteria will be met. On each Note Calculation Date during the Replenishment Period, or upon request by the Collateral Administrator, the Cash Administrator shall inform the Collateral Administrator of the amounts available to the Issuer in the relevant Quarterly Interest Period which may be used for the acquisition of Additional Collateral Loans and/or the funding of any Further Advances and/or Unfunded Drawings made in respect of an existing Collateral Loan and the declaration of trusts in respect of the Related Security (if any). For the avoidance of doubt, Unfunded Drawings and Further Advances are automatically assigned and transferred to the Issuer prior to their funding by the Issuer. If the Offeror has legal and beneficial title to Additional Collateral Loans which it is willing to sell (in consideration of the payment by the Issuer of the relevant Addition Date Purchase Price), the Offeror shall liaise with the Collateral Administrator and provide the Collateral Administrator with such information as is required by the Collateral Administrator to determine, *inter alia*, whether the Replenishment Criteria would be met if such loan advances became part of the Collateral Portfolio on the Addition Date. If the Collateral Administrator determines that such Additional Collateral Loans becoming part of the Collateral Portfolio on the Addition Date would satisfy the Replenishment Criteria, the Offeror may make an offer to assign such Collateral Loans to the Issuer. The Issuer (or the Collateral Administrator on its behalf) may accept this offer and the Issuer shall instruct the Cash Administrator to pay the relevant Addition Date Purchase Price on the Addition Date using the amounts available in accordance with the Principal Priority of Payments.

The Collateral Administrator shall administer the Collateral Loans generally in accordance with the servicing criteria and the normal business practices of the Offeror and the Cash Administrator shall administer the collections in respect thereof on behalf of the Offeror including keeping a record of amounts received from the relevant Borrowers in respect of the Collateral Loans. The Collateral Administrator shall also prepare a report containing information on the Collateral Loans on a quarterly basis.

Under the Administration Agreement, the Cash Administrator will be required, amongst other things:

- (ii) to establish the Issuer Accounts in the name of the Issuer for the purpose of receiving such funds transferred to the Issuer and make Permitted Investments in respect of the Issuer Accounts;
- (iii) to collate the information acquired by it in relation to the Notes;
- (iv) to prepare and make available to Noteholders every three (3) months, an investor report in accordance with the Administration Agreement to be made available to any Noteholder from the registered office of the Issuer or the Specified Office of the Principal Paying Agent and on the following website: [www.SF.citidirect.com](http://www.SF.citidirect.com) (the "**Investor Report**");
- (v) to effect payments into and out of the Issuer Accounts;
- (vi) to carry out calculations and make required drawings under the Liquidity Facility Agreement and the Offeror Indemnity Loan Facility Agreement;
- (vii) to effect payments in accordance with the relevant Priority of Payments;
- (viii) to calculate and transfer the Reconciliation Amount;
- (ix) to maintain the Principal Deficiency Ledgers; and

- (x) to assist the Collateral Administrator, following a request by the Collateral Administrator, in determining whether the Eligibility Criteria and the Replenishment Criteria (as appropriate) are satisfied.

**"Permitted Investment"** means (i) Sterling denominated government securities paying a fixed rate of interest or (ii) Sterling demand or time deposits or certificates of deposit, in each case at the applicable market rate for the relevant time period at that time provided that in all cases:

- (a) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made are rated at least P-1 by Moody's and F1+ by Fitch or such other ratings that are consistent with the published criteria of the Rating Agencies;
- (b) such investment is due to mature prior to the following Note Payment Date;
- (c) no investments will be acquired if they would be subject to withholding tax whilst held in the name of the Issuer;
- (d) following the downgrade of the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made falls below P-1 by Moody's or F1+ by Fitch or other such rating that are consistent with the published criteria of the Rating Agencies, such Permitted Investment shall be removed by the Cash Administrator within 60 calendar days following such downgrade without incurring additional costs to be borne by the Issuer; and
- (e) for so long as the Guaranteed Investment Contract is effective, the interest rate on such investment is no lower than the rate of interest at that time payable by the GIC Provider under the Guaranteed Investment Contract.

#### **Delegation**

Each of the Collateral Administrator and the Cash Administrator may appoint any person as its sub-agent, advisor, sub-contractor or representative to carry out or assist it in connection with any or all of its obligations under the Administration Agreement. Whilst any such appointment is in duration, the Collateral Administrator or, as the case may be, the Cash Administrator, shall continue to be liable for the performance of each of their obligations under the Administration Agreement. To the extent that the Collateral Administrator or, as the case may be, the Cash Administrator is aware that any delegate or sub-contractor has breached its duties, the Collateral Administrator or, as the case may be, the Cash Administrator will take all reasonable steps to pursue all legal remedies it has in respect of such breach against the delegate or sub-contractor.

#### **Termination of the appointment of the Collateral Administrator and/or the Cash Administrator**

The Offeror, the Issuer or (at any time after an Enforcement Notice has been delivered) the Note Trustee, either at its discretion or as directed by the Noteholders of the Most Senior Class acting by Extraordinary Resolution, may by written notice terminate the appointment of the Collateral Administrator and/or the Cash Administrator, upon the occurrence of any of the following:

- (i) a default by the Collateral Administrator and/or the Cash Administrator (as appropriate) in ensuring the payment on the due date of any payment required to be made by it under the Administration Agreement and such default not being remedied during the specified cure period (other than to the extent such default is due to (a) a technical or administrative default over which the Collateral Administrator or the Cash Administrator has no control or (b) any default by the Issuer, the Offeror or a third party (including any Swap Counterparty));
- (ii) the Collateral Administrator's and/or the Cash Administrator's (as appropriate) wilful default, bad faith, gross negligence, or fraud in the performance of or material breach of its obligations under the Administration Agreement;
- (iii) it is or will become unlawful for the Collateral Administrator and/or the Cash Administrator (as appropriate) to perform or comply with any of its obligations under the Transaction Documents;

- (iv) the failure of any representation, warranty, certification or statement made or delivered by the Collateral Administrator and/or the Cash Administrator (as appropriate) in or pursuant to the Administration Agreement to be correct in any material respect when made and, if capable of remedy, the Collateral Administrator and/or the Cash Administrator (as appropriate) fails (within 30 calendar days of the relevant department of the Collateral Administrator and/or the Cash Administrator (as appropriate) discovering, or being notified of, such error, whichever occurs first) to take such action so that such representation, warranty, certification or statement (after giving effect to such action) is correct in all material respects to the reasonable satisfaction of the Issuer or, as applicable, the Note Trustee;
- (v) the Collateral Administrator and/or the Cash Administrator (as appropriate) being prevented or severely hindered for a period of 60 calendar days or more from complying with its obligations as a result of *force majeure* and the *force majeure* continues for 30 calendar days after the Issuer or the Note Trustee has been given notice of the *force majeure*; or
- (vi) if any order is made by any competent court or other authority or a resolution passed for the dissolution, liquidation or winding-up of the Collateral Administrator and/or the Cash Administrator (as appropriate) or for the appointment of a bankruptcy official or receiver of the Collateral Administrator and/or the Cash Administrator (as appropriate) or of all or substantially all of its assets,

*provided that*, if any of the events specified in (i) to (vi) inclusive occurs in respect of the Collateral Administrator but not the Cash Administrator, the Collateral Administrator's appointment may be terminated and the Issuer or the Offeror (with the prior written consent of the Note Trustee) or, at any time after an Enforcement Notice has been delivered, the Note Trustee may terminate the appointment of the Collateral Administrator;

and *provided further that* if any of the events specified in (i) to (vi) inclusive occurs in respect of the Cash Administrator but not the Collateral Administrator, the Cash Administrator's appointment may be terminated and the Issuer or the Offeror (with the prior written consent of the Note Trustee) or, at any time after an Enforcement Notice has been delivered, the Note Trustee may terminate the appointment of the Cash Administrator.

If any of the events specified in (i) to (vi) inclusive above occurs, the Collateral Administrator or, as the case may be, the Cash Administrator shall, upon their relevant department becoming aware of the occurrence of such event, give prompt written notice thereof to the Issuer, the Offeror, the Note Trustee and the Noteholders.

The Collateral Administrator, the Cash Administrator, the Offeror, Holdings (in certain limited circumstances) and/or (after an Enforcement Notice has been delivered) the Note Trustee may also terminate the Administration Agreement upon not less than 60 calendar days' prior written notice.

Where the appointment of the Collateral Administrator and/or the Cash Administrator (as appropriate) is terminated, the Offeror, the Issuer or (at any time after an Enforcement Notice has been delivered) the Note Trustee shall appoint a successor Collateral Administrator and/or Cash Administrator (as appropriate) prior to the termination of the outgoing Collateral Administrator and/or Cash Administrator (as appropriate) becoming effective. In the event that a successor Collateral Administrator and/or Cash Administrator (as appropriate) is not so appointed, the outgoing Collateral Administrator and/or Cash Administrator (as appropriate) may appoint a reputable Collateral Administrator and/or Cash Administrator (as appropriate) with relevant experience in European structured finance securities as successor Collateral Administrator and/or Cash Administrator (as appropriate). However, for an entity to be appointed as successor Collateral Administrator and/or Cash Administrator (as appropriate) it must have the experience and capabilities to perform the services to be performed by the Collateral Administrator and/or the Cash Administrator (as appropriate) under the Administration Agreement and a Rating Agency Confirmation must have been received.

## ISSUER

### Introduction

Sandown Gold 2011-1 plc, being the Issuer was incorporated in England and Wales on 25 November 2010 (registered number 7451665) as a public limited company under the Companies Act 2006. The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is + 44 (0)207 398 6300. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,999 shares of £1 each, partly-paid up in cash of 25p each and 1 fully paid share of £1, all of which are owned by Sandown Gold 2011-1 Holdings Limited ("**Holdings**") (see *Holdings*, below).

The rights of Holdings as shareholder of the Issuer are contained in the articles of association of the Issuer. Holdings will comply with the articles of association of the Issuer and English law in exercising its rights as shareholder.

The Issuer has no subsidiaries. The Offeror does not own, directly or indirectly, any of the share capital of Holdings or the Issuer.

The Issuer was established as a special purpose vehicle solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issue of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

Under the Companies Act 2006, the Issuer's governing documents, including its principal objects, may be altered by a special resolution of shareholders.

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide to the Issuer, directors, a registered and administrative office, the arrangement of meetings of directors and shareholders and a company secretary. No other remuneration is paid by the Issuer to or in respect of any director or officer of the Issuer for acting as such.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 2006 and its change of name from Sunshinebridge plc to Chester Gold plc effective on 6 January 2011 and from Chester Gold plc to Sandown Gold 2011-1 plc effective on 18 February 2011 and the amendments to its articles of association effective on 18 February 2011, and to the proposed issue of the Notes and the authorisation and implementation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2011.

The Issuer has no employees.

### Directors

The directors of the Issuer and their respective business addresses and occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their principal activities are as follows:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Jocelyn Coad	35 Great St Helen's, London EC3A 6AP	Director

The company secretary of the Issuer is SFM Corporate Services Limited whose registered office is at 35 Great St Helen's, London EC3A 6AP.

There are no conflicts of interest between any duties to the Issuer of its directors and their private interests or duties.

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. There has been no material change in the capitalisation, indebtedness or contingent liabilities or guarantees since the date of incorporation of the Issuer.

As at the date of this Prospectus, the Issuer has not commenced operations and no financial statements have been produced by the Issuer.



## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 30 September 2010 (registered number 7393617) as a private limited company under the Companies Acts 1985 and 2006 (as amended). The registered office of Holdings is 35 Great St Helen's, London EC3A 6AP. The issued share capital of Holdings comprises one ordinary share of £1. SFM Corporate Services Limited (the "**Share Trustee**") holds the issued share on trust under a discretionary trust for one or more discretionary purposes. Neither the Offeror nor any company connected with the Offeror can direct the Share Trustee and no such company has any control, direct or indirect, over Holdings or the Issuer. Holdings holds the entire issued share capital of the Issuer.

Holdings has not engaged since its incorporation in any material activities other than changing its name and those activities incidental to the authorisation and implementation of the Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

### Directors

The directors of Holdings and their respective business addresses and occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Jocelyn Coad	36 Great St Helen's, London EC3A 6AP	Director

The company secretary of Holdings is SFM Corporate Services Limited whose registered office is at 35 Great St Helen's, London EC3A 6AP.

The accounting reference date of Holdings is 31 December.

Holdings has no employees.

## **USE OF PROCEEDS**

A portion of the net proceeds of the Notes (which, in respect of the Class A2 Notes, having been exchanged into Sterling pursuant to the relevant Swap Agreement) which are expected to amount to approximately £1,266,000,000 will be applied on the Issue Date to pay the Issue Date Purchase Price for the Collateral Loans purchased under the Portfolio Offer Deed on the Issue Date.

An amount equal to approximately £40,000,000 of the net proceeds of the Notes shall be deposited into the Reserve Account. The remainder of the net proceeds of the Notes shall be used by the Issuer to pay the Initial Issuer Swap Payment under the Currency Swap Agreement.

The expected expenses of approximately euro 5,690 in connection with the admission of the Notes to the Official List and trading on its Main Securities Market will be paid by the Issuer.

## DESCRIPTION OF SECURITY

### SECURITY ARRANGEMENTS

Subject to and under the terms of the Trust Deed, the Issuer with full title guarantee as continuing security for the payment or discharge of all moneys or liabilities (present or future or actual or contingent) which from time to time are or may become due, owing or payable by the Issuer under the Notes or Transaction Documents (the "**Secured Amounts**") will, subject to the right of redemption of the Issuer, create the following security interest in favour of the Note Trustee for itself and on trust for the other Secured Creditors:

- (a) a first fixed charge over the Issuer's present and future rights, title and interest (and all entitlements or benefits relating thereto) in and to each Permitted Investment and any other investments, in each case held by the Issuer from time to time, including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
- (b) an assignment by way of security (which shall take effect in equity prior to the occurrence of an Assignment Notification Event) or, to the extent such assignment is not effective, a first fixed charge over the Issuer's right, title and interest (and all entitlements or benefits relating thereto) in and to the Collateral Portfolio and the Issuer's beneficial interest in Related Security (if any), and any other investments, in each case held by or on behalf of the Issuer, including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
- (c) a first fixed charge over the Issuer's right, title and interest in and to the Issuer Accounts (and, in the case of the Swap Collateral Account, only to the extent applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Interest Rate Swap Agreement or/and relevant Currency Swap Agreement) and any other bank or other accounts in which the Issuer may at any time have or acquire any benefit;
- (d) an assignment by way of security of the Issuer's right, title and interest in and to each Transaction Document (other than the Trust Deed and the Subscription Agreement);
- (e) a first fixed charge over all monies held from time to time by the Principal Paying Agent on behalf of the Issuer for payment of principal, interest or other amounts on the Notes;
- (f) an assignment by way of security of the Issuer's present and future rights under the Interest Rate Swap Agreement and the Currency Swap Agreement (without prejudice to, and after giving effect to, any contractual netting provision contained in the Interest Rate Swap Agreement or the Currency Swap Agreement, as the case may be) and each Swap Transaction entered into thereunder (including the Issuer's rights under any guarantee or credit support annex entered into pursuant to the Interest Rate Swap Agreement and the Currency Swap Agreement; *provided that* such assignment by way of security shall not in any way restrict the release of collateral granted thereunder in whole or in part at any time pursuant to the terms thereof); and
- (g) a first floating charge over the whole of the Issuer's undertaking and all the Issuer's property, assets and rights whatsoever and wheresoever present and future including, without limitation, the Issuer's uncalled capital.

Paragraph 14 of Schedule B1 to the Insolvency Act 1986 will apply to the floating charge to be created pursuant to the Trust Deed.

The floating charge created by the Trust Deed shall be postponed to any valid fixed charges which remain outstanding under the Trust Deed from time to time and any rights of the Issuer to deal with the assets subject to the floating charge shall be expressly subject to any restrictions placed on dealing with those assets contained in any fixed charge over the same.

The security rights created in favour of the Note Trustee pursuant to the Trust Deed shall be the "**Security**".

If, as a result of any Event of Default under the Notes, the Security is enforced by or on behalf of the Note Trustee, the Note Trustee shall be entitled to appoint a Receiver and such Receiver may sell the Collateral Loans (and dispose of the Issuer's beneficial interest in the Related Security (if any)) subject to the provisions of the Trust Deed and relevant statutes.

**THE OFFEROR, THE ISSUER ACCOUNT BANK, THE CASH ADMINISTRATOR, THE COLLATERAL ADMINISTRATOR, THE GIC PROVIDER, THE LIQUIDITY FACILITY PROVIDER, THE OFFEROR INDEMNITY LOAN FACILITY PROVIDER, THE INTEREST RATE SWAP COUNTERPARTY AND THE CURRENCY SWAP COUNTERPARTY**

Lloyds TSB Bank plc ("**Lloyds TSB Bank**") was incorporated in England and Wales on 20 April 1865 (registration number 2065). Lloyds TSB Bank's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom. Lloyds TSB Bank is authorised and regulated by the Financial Services Authority. Lloyds TSB Bank is a wholly owned subsidiary of Lloyds Banking Group plc (the "**Company**", and together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**").

***Overview***

The businesses of Lloyds Banking Group are in or owned by Lloyds TSB Bank. Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers.

***History and development of Lloyds Banking Group***

Lloyds Bank plc was incorporated in 1865 and has undertaken a number of mergers and acquisitions, including the merger with TSB Group plc in 1995, the acquisition of Cheltenham & Gloucester Building Society ("**C&G**") in 1995, and the acquisition of Scottish Widows in 2000.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc. On 16 January 2009, this acquisition was completed and Lloyds TSB Group plc changed its name to Lloyds Banking Group plc.

On 1 January 2010, the Company transferred its holding in HBOS plc to Lloyds TSB Bank (the "**Group Reorganisation**"). As a result of the Group Reorganisation, Lloyds Banking Group plc owns Lloyds TSB Bank directly and owns HBOS plc indirectly as Lloyds TSB Bank is the immediate parent of HBOS plc.

As at 1 July 2011, the UK Government's holding of the issued ordinary share capital of Lloyds Banking Group plc amounted to approximately 40.2 per cent.

***Business and activities***

Lloyds Banking Group's activities are organised into four segments: Retail; Wholesale; Wealth and International; and Insurance.

***Retail***

Retail operates the largest retail bank in the UK and is a leading provider of current accounts, savings, personal loans, credit cards and mortgages. With its strong stable of brands including Lloyds TSB, Halifax, Bank of Scotland, Birmingham Midshires and C&G and one of the largest branch and fee free ATM networks in the UK.

***Wholesale***

The Wholesale division serves in excess of a million businesses, ranging from start-ups and small enterprises to global corporations, with a range of propositions fully segmented according to customer need. The division comprises Corporate Markets, Treasury and Trading and Asset Finance.

***Wealth and International***

The Wealth business comprises private banking, wealth and asset management business in the UK and overseas. The International business comprises Lloyds Banking Group's international banking businesses outside the UK, with the exception of corporate business in North America which is managed through Lloyds Banking Group's Wholesale division. These largely comprise corporate, commercial and asset finance businesses in Australia and Continental Europe and retail businesses in Germany and the Netherlands.

## *Insurance*

The Insurance division offers life assurance, pensions, investment products and general insurance.

## *State Funding and State Aid*

Lloyds Banking Group has made a number of undertakings to HM Treasury arising from the capital and funding support, including the provision of additional lending to certain mortgage and business sectors until 28 February 2011, and other matters relating to corporate governance and colleague remuneration. The second year of commitments in respect of lending were subject to normal prudent commercial lending criteria and pricing, the availability of funding to support such lending and the availability of sufficient demand from creditworthy customers and potential customers, and were delivered in full. The new agreement between five major UK banks (including Lloyds Banking Group) and the Government in relation to gross business lending capacity in the 2011 calendar year is subject to a similar set of criteria.

As part of the European Commission's decision approving state aid to Lloyds Banking Group, Lloyds Banking Group was required to submit a restructuring plan (the "**Restructuring Plan**"). to the European Commission in the context of a state aid review. The plan was required to contain measures to limit any competition distortions resulting from the state aid received by Lloyds Banking Group and to restore Lloyds Banking Group's viability. The College of Commissioners announced its formal approval of the state aid on 18 November 2009.

The Restructuring Plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and up to 19.2 per cent. of Lloyds Banking Group's mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in a specified pool of assets by 31 December 2014; and (iii) behavioural commitments, including commitments which restrict Lloyds Banking Group's ability to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which prevents Lloyds Banking Group from paying dividends on its ordinary shares for the same duration.

The retail banking business referred to in (i) above is to be disposed of before the end of November 2013 and consists of the TSB brand, the branches, savings accounts and branch-based mortgages of Cheltenham & Gloucester, the branches and branch-based customers of Lloyds TSB Scotland and a related banking licence, additional Lloyds TSB branches in England and Wales, with branch-based customers and Intelligent Finance. Lloyds Banking Group has now commenced the formal sales process (thereby meeting the requirement to do so no later than November 2011) and is working closely with the European Commission, HM Treasury and the Monitoring Trustee appointed by the European Commission to ensure the implementation of the Restructuring Plan.

## *Legal Actions*

During the ordinary course of business Lloyds Banking Group is subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas.

## *Unarranged Overdraft Charges*

In April 2007, the OFT commenced an investigation into the fairness of personal current accounts and unarranged overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

The Supreme Court of the United Kingdom published its judgment in respect of the fairness of unarranged overdraft charges on personal current accounts on 25 November 2009, finding in favour of the litigant banks. On 22 December 2009, the OFT announced that it will not continue its investigation into the fairness of these charges. Lloyds Banking Group is working with the regulators to ensure that outstanding customer complaints are concluded as quickly as possible and anticipates that most cases in the county courts will be discontinued. Lloyds Banking Group expects that some customers will argue that despite the test case ruling they are entitled to a refund of unarranged overdraft charges on the basis of other legal arguments or challenges. It is not practicable to quantify the claims at this time. Lloyds Banking Group is robustly defending any such complaints or claims and does not expect any such complaints or claims to have a material effect on Lloyds Banking Group.

The OFT however continued to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. On 16 March 2010 the OFT published a further update announcing several further voluntary industry wide initiatives to improve a customer's ability to control whether they used an unarranged overdraft and to assist those in financial difficulty. However, in light of the progress it noted in the unarranged overdraft market since July 2007 and the progress it expects to see over the next two years, it has decided to take no further action at this time and will review the unarranged overdraft market again in 2012.

#### *Interchange Fees*

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the "**General Court**"). Lloyds TSB Bank plc and Bank of Scotland plc (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with European Union competition laws. MasterCard has announced that it has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area multi-lateral interchange fees on an interim basis pending the outcome of the appeal. Meanwhile, the European Commission and the OFT are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or crossborder payment transactions also infringe European Union and/or UK competition laws. As part of this initiative, the OFT will also intervene in the General Court appeal supporting the European Commission position and Visa reached an agreement with the European Commission to reduce the level of interchange for crossborder debit card transactions to the interim levels agreed by MasterCard. The ultimate impact of the investigations on Lloyds Banking Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

#### *Payment Protection Insurance*

There has been extensive scrutiny of the Payment Protection Insurance ("**PPI**") market in recent years.

In October 2010, the UK Competition Commission (the "**Competition Commission**") confirmed its decision to prohibit the active sale of PPI by a distributor to a customer within seven days of a sale of credit. This followed the completion of its formal investigation into the supply of PPI services (other than store card PPI) to non-business customers in the UK in January 2009 and a referral of the proposed prohibition to the Competition Appeal Tribunal. The Competition Commission consulted on the wording of a draft order to implement its findings from October 2010, and published the final Order on 24 March 2011 which became effective on 6 April 2011. Following an earlier decision to stop selling single premium PPI products, Lloyds Banking Group ceased to offer PPI products to its customers in July 2010.

On 29 September 2009 the FSA announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. Lloyds Banking Group agreed in principle that it would undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. That review will now form part of the ongoing PPI work referred to below.

On 1 July 2008, the FOS referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling. The FSA published its Policy Statement on 10 August 2010, setting out evidential provisions and guidance on the fair assessment of a complaint and the calculation of redress, as well as a requirement for firms to reassess historically rejected complaints which had to be implemented by 1 December 2010.

On 8 October 2010, the British Bankers' Association (the "**BBA**"), the principal trade association for the UK banking and financial services sector, filed an application for permission to seek judicial review against the FSA and the FOS. The BBA sought an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008.

Subsequent to the year end, the Judicial Review hearing was held in late January 2011 and, on 20 April 2011 judgment was handed down by the High Court dismissing the BBA's application. On 9 May 2011, the BBA confirmed that the banks and the BBA did not intend to appeal the judgment.

Since publication of the judgment, Lloyds Banking Group has been in discussions with the FSA with a view to seeking clarity around the detailed implementation of the Policy Statement. As a result, and given the initial analysis that Lloyds Banking Group has conducted of compliance with applicable sales standards, which is continuing, Lloyds Banking Group has concluded that there are certain circumstances where customer contact and/or redress will be appropriate. Accordingly Lloyds Banking Group has made a provision in its income statement for the quarter ended 31 March 2011 of £3,200 million in respect of the anticipated costs of such contact and/or redress, including administration expenses. There are still a number of uncertainties as to the eventual costs from any such contact and/or redress given the inherent difficulties of assessing the impact of detailed implementation of the Policy Statement for all PPI complaints, uncertainties around the ultimate emergence period for complaints, the availability of supporting evidence and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs.

#### *Interbank Offered Rate Setting Investigations*

Various regulators in the UK, US and overseas, including the US Commodity Futures Trading Commission, the SEC, the US Department of Justice and the European Commission, are conducting investigations into submissions made by panel members to the bodies that set various interbank offered rates. Lloyds Banking Group, and/or its subsidiaries, were (at the relevant time) and remain members of various panels that submit data to these bodies in a number of jurisdictions. Lloyds Banking Group has received requests from some regulators for information and is co-operating with their investigations. Lloyds Banking Group is co-operating with requests for information from some regulators. In addition recently Lloyds Banking Group has been named in private purported class action suits in the US with regard to the setting of London interbank offered rates ("**LIBOR**") by members of the LIBOR setting panel. It is currently not possible to predict the scope and ultimate outcome of the various regulatory investigations or purported private class action suits, including the timing and scale of the potential impact of any investigations and class action suits on Lloyds Banking Group.

#### *Other Legal Actions And Regulatory Matters*

In the course of its business, Lloyds Banking Group is engaged in discussions with the FSA in relation to a range of conduct of business matters including complaints handling, packaged bank accounts, product terms and sales processes. Lloyds Banking Group is keen to ensure that any regulatory concerns regarding Lloyds Banking Group's processes, product governance, sales processes or contract terms are understood and addressed. The ultimate impact on Lloyds Banking Group of these discussions can only be known at the conclusion of such discussions.

In addition, during the ordinary course of business Lloyds Banking Group is subject to other threatened and actual legal proceedings (which may include class action lawsuits brought on behalf of customers, shareholders or other third parties, arising out of regulatory investigations or otherwise), regulatory investigations, regulatory challenges and enforcement actions, both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of Lloyds Banking Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the case and no provisions are held against such matters. However Lloyds Banking Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.



***Availability of Public Information***

Investors may obtain additional information, including copies of the most recent publicly available annual audited financial statements of Lloyds TSB Bank and Lloyds Banking Group plc, by contacting Investor Relations, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or from the following internet website address: <http://www.lloydsbankinggroup.com>.

**THE AGENT BANK, THE NOTE TRUSTEE, THE PRINCIPAL PAYING AGENT AND THE REGISTRAR**

***Citibank, N.A.***

Citibank, N.A. is a company incorporated with limited liability in the United States of America under the laws of the City and State of New York on 14 June 1812 and reorganised as a national banking association formed under the laws of the United States of America on 17 July 1865 with Charter number 1461 and having its principal business office at 399 Park Avenue, New York, NY 10043, USA and having in Great Britain a principal branch office situated at Canada Square, Canary Wharf, London E14 5LB with company number FC001835 and branch number BR001018.

## TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes in the form in which they will be set out in the Trust Deed (subject to completion and amendment). They will be incorporated by reference into the Notes in global form.

The conditions are subject to the provisions of the Trust Deed and the other Transaction Documents.

The issue of the £428,000,000 Class A1 Asset Backed Notes due 2038 (the "**Class A1 Notes**"), the €310,624,000 Class A2 Asset Backed Notes due 2038 (the "**Class A2 Notes**"), the £100,000,000 Class B Asset Backed Notes due 2038 (the "**Class B Notes**"), the £110,000,000 Class C Asset Backed Notes due 2038 (the "**Class C Notes**" and together with the Class A1 Notes, the Class A2 Notes and the Class B Notes, the "**Rated Notes**"), the £120,000,000 Class D Potential Set-Off Notes due 2038 (the "**Class D Notes**") and the £236,478,000 Class S Asset Backed Notes due 2038 (the "**Class S Notes**", and together with the Rated Notes and the Class D Notes, the "**Notes**", and "**Note**" shall mean any one of the Notes, and "**Class**" or "**Class of Notes**" means in respect of the Notes, the class of Notes being identified as the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes and "**Classes**" shall be construed accordingly) was authorised by a resolution of the board of directors of Sandown Gold 2011-1 plc (the "**Issuer**") adopted on 21 July 2011.

The Notes will be issued on or about 27 July 2011 (the "**Issue Date**") and will be constituted by the provisions of a trust deed (the "**Trust Deed**") dated on or about the Issue Date between, *inter alios*, the Issuer and Citibank, N.A., London Branch (the "**Note Trustee**") as note trustee for the time being of the holders of the Notes, and are subject to these terms and conditions to be endorsed on the Notes in, or substantially in the form scheduled to the Trust Deed as the same may be modified from time to time in accordance with the Trust Deed (the "**Conditions**", and each a "**Condition**"). In addition to the Trust Deed, a number of agreements will be entered into, including the following:

- (a) an agency agreement dated on or about the Issue Date (the "**Agency Agreement**") between, amongst others, the Issuer, the Note Trustee, Citibank, N.A., as principal paying agent in respect of the Notes (in such capacity, the "**Principal Paying Agent**"), Citibank, N.A., as agent bank in respect of the Notes (the "**Agent Bank**") and Citibank, N.A., as registrar ("**Registrar**", and together with the Principal Paying Agent and Agent Bank, the "**Agents**", and each an "**Agent**");
- (b) an administration agreement dated on or about the Issue Date (the "**Administration Agreement**") between, among others, the Issuer, the Note Trustee, Lloyds TSB Bank plc ("**LTSB**") as collateral administrator (the "**Collateral Administrator**") and LTSB as Cash Administrator (the "**Cash Administrator**");
- (c) a corporate services agreement dated on or about the Issue Date (the "**Corporate Services Agreement**") between, among others, the Issuer, Holdings and Structured Finance Management Limited as corporate services provider (the "**Corporate Services Provider**");
- (d) a Portfolio Offer Deed dated on or about the Issue Date (the "**Portfolio Offer Deed**") between the Issuer, the Offeror and the Note Trustee;
- (e) a trust instrument dated on or about the Issue Date between, *inter alios*, the Offeror and the Issuer (the "**Declaration of Trusts**");
- (f) a beneficiaries deed dated on or about the Issue Date between the Issuer and LTSB (the "**Beneficiaries Deed**");
- (g) an account bank agreement dated on or about the Issue Date (the "**Account Bank Agreement**") between the Issuer, the Note Trustee and LTSB as the issuer account bank (the "**Issuer Account Bank**");
- (h) an interest rate swap agreement dated on or about the Issue Date (the "**Interest Rate Swap Agreement**") between the Issuer, the Note Trustee and LTSB as interest rate swap counterparty (the "**Interest Rate Swap Counterparty**");

- (i) a currency swap agreement dated on or about the Issue Date (the "**Currency Swap Agreement**") between the Issuer, the Note Trustee and LTSB as currency swap counterparty (the "**Currency Swap Counterparty**");
- (j) a liquidity facility agreement dated on or about the Issue Date (the "**Liquidity Facility Agreement**") between the Issuer, the Note Trustee and LTSB as liquidity facility provider (the "**Liquidity Facility Provider**");
- (k) a loan facility agreement dated on or about the Issue Date (the "**Offeror Indemnity Loan Facility Agreement**") between the Issuer, the Note Trustee and LTSB as Offeror indemnity loan facility provider (the "**Offeror Indemnity Loan Facility Provider**"); and
- (l) a guaranteed investment contract dated on or about the Issue Date (the "**Guaranteed Investment Contract**") between the Issuer, the Note Trustee and LTSB as guaranteed investment contract provider (the "**GIC Provider**").

Any reference in these Conditions to the Trust Deed, the Agency Agreement or any other Transaction Document is to such document as from time to time amended, varied or novated in accordance with its provisions and includes any deed or other document expressed to be supplemental to it, as from time to time so amended.

References to the Note Trustee, any of the Agents, Collateral Administrator, Cash Administrator, Swap Counterparties, Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, GIC Provider, Issuer Account Bank or Corporate Services Provider shall include references to their successors, transferees and assigns and, in the case of the Note Trustee, to any additional note trustee appointed under the Trust Deed.

Unless stated otherwise in these Conditions, defined terms used in these Conditions have the meaning given to them in the incorporated terms memorandum entered into on or about the Issue Date (the "**Incorporated Terms Memorandum**" between, amongst others, the Issuer and the Note Trustee, and which is available for inspection as described below.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the other Transaction Documents.

Copies of the Trust Deed, the Agency Agreement and the other Transaction Documents are available for inspection, free of charge to Noteholders at the Specified Office of the Principal Paying Agent and the registered office of the Note Trustee, being as at the Issue Date, Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB.

The Noteholders and all persons claiming through them or under the Notes are entitled to the benefit of and, are bound by the provisions of the Trust Deed, the Agency Agreement and the other Transaction Documents, and are deemed to have notice of all the provisions of the Transaction Documents.

## 1. DEFINITIONS

"**Addition Date**" means, respectively (i) the date on which an Additional Collateral Loan becomes part of the Collateral Portfolio (ii) the date on which a Further Advance is funded or (iii) the date on which an Unfunded Drawing is funded, in each case by the Issuer using Replenishment/Redemption Available Funds;

"**Additional Collateral Loan**" means any loan and proceeds thereof which are not offered by the Offeror to the Issuer on the Issue Date but subsequently become part of the Collateral Portfolio during the Replenishment Period pursuant to the Portfolio Offer Deed;

"**Additional Collateral Loan Accrued Interest Payment**" means, on the relevant Addition Date in respect of any Additional Collateral Loans that are Fixed Rate Collateral Loans, an amount equal to the accrued unpaid interest on such date in respect of the Funded Aggregate Principal Balance of such Additional Collateral Loans on such date;

"**Aggregate Principal Balance**" means in relation to any Collateral Loan as at any given date, the aggregate of:

- (a) the original principal amount advanced to the relevant Borrower and any Further Advances on or before the given date to the relevant Borrower, where applicable, secured or intended to be secured by the Related Security (if any);
- (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Loan Agreement or with the relevant Borrower's consent and added to the amounts owed by the Borrower under such Loan Agreement; and
- (c) any other amount not included in (a) or (b) above (other than accrued and unpaid interest) which is due or has accrued (whether or not due) and which has not been paid by the relevant Borrower and has not yet been capitalised in accordance with any relevant Loan Agreement or with the relevant Borrower's consent but which is owed by the Borrower under such Loan Agreement,

as at the end of the Business Day immediately preceding that given date, less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any Further Advance committed to be made but not made by the end of the Business Day immediately preceding that given date;

**"All Moneys Security"** means Related Security which takes the form of an unlimited or all moneys security in that such security purports to secure the repayment of all present and future sums that may be advanced by the Offeror to the relevant Borrower, including sums that do not constitute a Collateral Loan as well as securing the repayment of the relevant Collateral Loan;

**"Ancillary Rights"** means in relation to a Right, all ancillary rights, accretions and supplements to such Right, including, without limitation, any guarantees or indemnities in respect of such Right;

**"Annual Anniversary Date"** means the Note Payment Date falling in December every year;

**"Arranger"** means Lloyds TSB Bank plc in its capacity as arranger under the Subscription Agreement;

**"Assignment Notification Event"** means:

- (a) the Offeror fails in any material respect to duly perform, or comply with, any of its payment obligations under the Portfolio Offer Deed or under any of the other Transaction Documents to which it is a party and such failure, if capable of being remedied, is not remedied within ten (10) Business Days after notice thereof; or
- (b) an order is made or an effective resolution passed for the winding up of the Offeror; or
- (c) the Offeror ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or
- (d) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the Offeror under any applicable liquidation, administration reorganisation (other than a reorganisation where the Offeror is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the Offeror or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the Offeror and in any of the foregoing cases it is not discharged within 15 London business days; or if the Offeror initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness; or

- (e) the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror cease to be rated at least the Notification Required Ratings; or
- (f) it becomes unlawful for the Offeror to perform all or a material part of its obligations under the Transaction Documents in such a manner that this would have a material adverse effect on its ability to perform such obligations;

"**Authorised Denomination**" means in respect of the Rated Notes represented by Global Note Certificates, (other than the Class A2 Notes) £100,000 and any amount in excess thereof in integral multiples of £1,000 and, in respect of the Class A2 Notes, €100,000 and any amount in excess thereof in integral multiples of €1,000;

"**Available Funds**" means, on any Note Calculation Date, the aggregate of the Revenue Available Funds and the Replenishment/Redemption Available Funds;

"**Bankruptcy**" means that a Borrower is (1) dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it proceedings seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceedings or petition instituted or presented against it, such proceedings or petition (A) results in a judgement of insolvency or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (5) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; (8) in relation to an individual, a court order has been made following the presentation of a bankruptcy petition; or (9) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction has an analogous effect to any of the events specified in clauses (1) to (8) inclusive;

"**Basel II Default**" means (i) the Offeror considers at any time (acting reasonably in accordance with its internal procedures) that a Borrower is unlikely to pay its credit obligations under the relevant Loan Agreement (without recourse by the Offeror to action such as realisation of security); or (ii) a Borrower has failed to meet any payment obligation under the relevant Loan Agreement which has occurred and has continued (and is continuing) for at least 90 consecutive calendar days;

"**Benefit**" in respect of any asset, agreement, property or right (each a "**Right**" for the purpose of this definition) held, assigned, conveyed, transferred, charged, sold or disposed of by any person shall be construed so as to include:

- (a) all right, title, interest and benefit, present and future, actual and contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Right and all Ancillary Rights in respect of such Right;
- (b) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Right or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account;
- (c) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Right or its Ancillary Rights;
- (d) the benefit of all powers of and remedies for enforcing or protecting such person's right, title, interest and benefit in, to, under and in respect of such Right or its Ancillary Rights, including the

right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Right or its Ancillary Rights; and

- (e) all items expressed to be held on trust for such person under or comprised in any such Right or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Right and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Right and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach;

**"Block Voting Instruction"** means, in relation to any Meeting, a document in the English language issued by the Registrar:

- (a) certifying that:
  - (i) certain specified Notes (each a **"Blocked Note"**) have been blocked in an account with a clearing system and will not be released until the conclusion of the Meeting;
  - (ii) each registered Holder of certain specified Notes (each a **"Relevant Note"**) or a duly authorised person on its behalf has instructed the Registrar that the votes attributable to such Relevant Note held by it are to be cast in a particular way on each resolution to be put to the Meeting; and
  - (iii) in each case that, during the period of 48 hours before the time fixed for the Meeting, such instructions may not be amended or revoked;
- (b) listing the principal amount of Blocked Notes and Relevant Notes, distinguishing for each resolution between those in respect of which instructions have been given to vote for, or against, the resolution; and
- (c) authorising a named individual or individuals to vote in respect of the Blocked Notes and the Relevant Notes in accordance with such instructions;

**"Borrower"** means any debtor of the Collateral Loans, including any jointly and severally liable co-debtor of the Collateral Loans under the relevant Loan Agreement;

**"Business Day"** means a day, other than a Saturday or Sunday, on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System ("**TARGET2 System**") or any successor to the TARGET2 System is operating credit or transfer instructions in respect of payments in euro and on which banking institutions in London are generally open for commercial business;

**"Cap Annual Period"** means the period from the Issue Date to (and including) the first Annual Anniversary Date and, thereafter, every successive twelve-month period running from (but excluding) an Annual Anniversary Date to (and including) the immediately following Annual Anniversary Date;

**"Capital Accord"** has the meaning given to such term in Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*);

**"Cash Collateral"** means an amount of cash in Sterling drawn by the Issuer under the Offeror Indemnity Loan Facility Agreement;

**"Cash Collateral Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Charged Assets"** means any and all of the Issuer's assets comprised in the Security;

**"Class A Noteholders"** means the Class A1 Noteholders and the Class A2 Noteholders;

**"Class A1 Noteholders"** means the holders of the Class A1 Notes from time to time;

**"Class A2 Noteholders"** means the holders of the Class A2 Notes from time to time;

**"Class B Noteholders"** means the holders of the Class B Notes from time to time;

"**Class C Noteholders**" means the holders of the Class C Notes from time to time;

"**Class D Noteholders**" means the holders of the Class D Notes from time to time;

"**Class S Individual Note Certificate**" has the meaning given to such term in Condition 2.1 (*Form and Denomination*);

"**Class S Noteholders**" means the holders of the Class S Notes from time to time;

"**Clean-Up Call Date**" has the meaning given to such term in Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*);

"**Clean-Up Call Option**" has the meaning given to such term in Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*);

"**Clearing System Business Day**" has the meaning given to such term in Condition 6.6 (*Record date*);

"**Clearstream, Luxembourg**" means Clearstream Banking *société anonyme*;

"**Collateral Loan**" means any loan and proceeds thereof which forms part of the Collateral Portfolio purchased by the Issuer pursuant to the Portfolio Offer Deed;

"**Collateral Portfolio**" means the portfolio of loans to small and medium-sized enterprise borrowers in the UK, a portion of which may be secured by Related Security, assigned (in respect of the Collateral Loans) by the Offeror to the Issuer pursuant to the Portfolio Offer Deed and, in respect of the Related Security (if any), to be subject to the Declaration of Trusts;

"**Collection Account Bank Required Ratings**" means ratings of at least:

- (a) Baa3 by Moody's; or
- (b) BBB- by Fitch in respect of the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Collection Account Bank,

for so long as such Collection Account Bank is LTSB, and if LTSB ceases to be the Collection Account Bank, the IAB Required Ratings;

"**Collection Accounts**" means the accounts of the Offeror to which all payments made by Borrowers will be credited prior to the occurrence of an Assignment Notification Event;

"**Credit Event**" means: (a) Bankruptcy has occurred and/or (b) the Transfer to Recovery of the relevant Collateral Loan has occurred;

"**CTA**" has the meaning given to such term in Condition 3.2 (*Title*);

"**Currency Swap Credit Support Annex**" means the 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) entered into on or around the Issue Date between the Currency Swap Counterparty, the Issuer and the Note Trustee;

"**Defaulted Collateral Loan**" means a Collateral Loan in respect of which a Credit Event has occurred and is continuing;

"**Defaulted Swap Settlement Payments**" means any amount payable to a Swap Counterparty upon termination of a Swap Agreement following the occurrence of (a) an Event of Default (as defined in such Swap Agreement) in respect of which such Swap Counterparty was the Defaulting Party (as defined in such Swap Agreement) or (b) any other Termination Event (as defined in such Swap Agreement) in respect of such Swap Counterparty occurring as a result of a failure by that Swap Counterparty to take necessary action following the downgrade of its rating by the Rating Agencies to maintain or restore the ratings assigned to the Notes by the Rating Agencies;



**"Deferred Purchase Price"** means the additional purchase price payable by the Issuer to the Offeror in relation to:

- (a) a Collateral Loan which has an Unfunded Drawing, which for the avoidance of doubt includes an Unfunded Drawing in respect of a Further Advance, in an amount equal to, on any date:
  - (i) the Aggregate Principal Balance of such Collateral Loan on such date, *minus*
  - (ii) the amount of the Issue Date Purchase Price (excluding any unpaid but accrued interest component of such Issue Date Purchase Price), or as the case may be, the Addition Date Purchase Price (excluding any unpaid but accrued interest component of such Addition Date Purchase Price) in respect of such Collateral Loan *minus* the Issuer Share of any principal repayment and/or prepayment and or recoveries made in respect of such Collateral Loan on such date which are taken into account in the calculation of the Aggregate Principal Balance of such Collateral Loan on such date; and
- (b) any waiver fees, late payment fees, commitment fees and all other fees and commissions received by the Issuer from the Offeror in respect of any Collateral Loan;

**"Delayed Draw Obligation"** means a Collateral Loan in relation to which the Offeror may be required to make one or more future advances to the Borrower thereunder and which does not permit re-borrowing of any amounts previously repaid; *provided that* any such Collateral Loan will cease to be a Delayed Draw Obligation when the Unfunded Amount with respect to such Delayed Draw Obligation expires, is terminated or reduced to zero;

**"EC Treaty"** means the Treaty establishing the European Community signed in Rome on 25 March 1957, as amended from time to time;

**"Enforcement Notice"** has the meaning given to such term in Condition 12 (*Events of Default*);

**"EURIBOR"** for each Quarterly Interest Period means the rate for deposits in euro for a period of three months which appears on Reuters Page EURIBOR 01 as of 11:00 a.m. (Brussels time) on the EURIBOR Determination Date (other than the first Quarterly Interest Period, which will be determined by a linear interpolation of the rate for deposits in euro for a period of 4 months and 5 months), all as determined by the Agent Bank. If Reuters Page EURIBOR 01 is not available or if no such quotation appears thereon, in each case as at such time, the Agent Bank shall request the Reference Banks selected by it to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro at approximately 11:00 a.m. (Brussels time) on the relevant EURIBOR Determination Date (other than the first Quarterly Interest Period, which will be determined by a linear interpolation of the rate for deposits in euro for a period of 4 months and 5 months) to prime banks in the Euro-zone inter bank market for the relevant Quarterly Interest Period and in an amount that is representative for a single transaction in that market at that time. If two or more of the selected Reference Banks provide the Agent Bank with such offered quotations, EURIBOR for such Quarterly Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards). If on the relevant EURIBOR Determination Date fewer than two of the selected Reference Banks provide the Agent Bank with such offered quotations, EURIBOR for such Quarterly Interest Period shall be the rate per annum which the Agent Bank determines as being the arithmetic mean (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards) of the rates communicated to (and at the request of) the Agent Bank by major banks in the Euro-zone market, selected by the Agent Bank, at approximately 11:00 a.m. (Brussels time) on such EURIBOR Determination Date for loans in euro to leading European banks for such Quarterly Interest Period and in an amount that is representative for a single transaction in that market at that time;

**"EURIBOR Determination Date"** means, for each Quarterly Interest Period, the second TARGET Settlement Day before the first day of the relevant Quarterly Interest Period and, in respect of the first Quarterly Interest Period, the Issue Date;

**"euro", "€" or "EUR"** means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;

**"Euro Account"** means the account in such name, denominated in euro, opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Euroclear"** means Euroclear Bank S.A./N.V.;

**"European Economic Area"** means the European Union and Iceland, Norway and Liechtenstein;

**"Euro-zone"** means the region comprising member states of the European Union that have adopted the single currency, the euro, in accordance with the EC Treaty;

**"Event of Default"** means each of the events listed in Condition 12 (*Events of Default*);

**"Expected Recovery"** means in the case of a sale and re-assignment to any third party, the actual purchase price agreed to be paid by such third party;

**"Final Exchange Amount"** means the final exchange amount payable by the Currency Swap Counterparty under the Currency Swap Agreement;

**"Final Maturity Date"** means the Note Payment Date falling in December 2038;

**"First Interest Period"** has the meaning given to such term in Condition 5.2(b) (*Interest Periods and Note Payment Dates*);

**"Fitch"** means Fitch, Inc. and Fitch Ratings Limited and any subsidiary of either of them together with any successor in interest to such person;

**"Fixed Rate Collateral Loans"** means Collateral Loans on which the interest is calculated by reference to a fixed rate of interest;

**"Form of Proxy"** means, in relation to any Meeting, a document in the English language available from the Registrar signed by a Noteholder or, in the case of a corporation, executed under its seal or signed on its behalf by a duly authorised officer and delivered to the Registrar not later than 48 hours before the time fixed for such Meeting, appointing a named individual or individuals to vote in respect of the Notes held by such Noteholder;

**"Funded Aggregate Principal Balance"** means on any date the Aggregate Principal Balance in relation to a Collateral Loan minus any Deferred Purchase Price payable by the Issuer in respect of such Collateral Loan;

**"Further Advance"** means any further advance or other increase drawn down by a Borrower following the Issue Date in respect of a Collateral Loan pursuant to the relevant Loan Agreement;

**"Further Advance Accrued Interest Payment"** means, on the relevant Addition Date in respect of a Further Advance in respect of a Fixed Rate Collateral Loan, an amount equal to the accrued unpaid interest (if any) on such date in respect of the portion of Funded Aggregate Principal Balance of the Collateral Loan under which such Further Advance is made which relates to such Further Advance on such date and, for the avoidance of doubt, if the Further Advance Addition Date Purchase Price in respect of a Further Advance is paid by the Issuer in full on the day such Further Advance is drawn down by the relevant Borrower, no such Further Advance Accrued Interest Payment will be payable by the Interest Rate Swap Counterparty;

**"General Call Date"** has the meaning given to such term in Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*);

**"General Call Option"** has the meaning given to such term in Condition 7.8 (*Redemption of the Notes following the exercise of the General Call Option*);

**"Global Note Certificate"** means any global note certificate issued in respect of the Rated Notes;

**"Global Notes"** has the meaning given to such term in Condition 2.1 (*Form and Denomination*);

**"Holder"** has the meaning given to such term in Condition 3.1 (*Register*);

**"IAB Required Ratings"** means a short-term senior unsecured debt rating of P-1 by Moody's and F-1 by Fitch and a long-term senior unsecured debt rating of A by Fitch, **provided that**, if such long-term senior unsecured debt rating has been placed on "Ratings Watch Negative" by Fitch, the Issuer Account Bank or GIC Provider (as applicable) will be required to have a long-term senior unsecured debt rating of at least A+ by Fitch;

**"ICSDs"** means Euroclear and Clearstream, Luxembourg;

**"Individual Note Certificate"** has the meaning given to such term in Condition 2.1 (*Form and Denomination*);

**"Initial Principal Amount"** means, in relation to any Note, the Principal Amount Outstanding of such Note on the Issue Date;

**"Insolvency Event"** in respect of a company means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts, *provided that* the Issuer shall not be treated as being unable to pay its debts as they fall due if it would be able to make a drawing under the Liquidity Facility Agreement and would as a result of such Liquidity Facility Drawing be able to pay such debts; or
- (b) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or
- (c) a moratorium is declared in respect of any indebtedness of such company; or
- (d) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (e) any corporate action, legal proceedings or other procedure or step is taken in relation to:
  - (i) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any part of the undertaking or assets of such company except, in the case of the Issuer, the application to the Court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act by the Issuer or its directors, or the appointment of an administrative receiver by the Note Trustee following any such application or notice; or
  - (ii) an encumbrancer (excluding, in relation to the Issuer, the Note Trustee or any Receiver) taking possession of the whole or any part of the undertaking or assets of such company; or
  - (iii) the making of an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business; or
  - (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Note Trustee or any Receiver); or
- (f) any procedure or step is taken, or any event occurs, analogous to those set out in (a) - (e) above, in any jurisdiction.

**"Insolvency Official"** means, in relation to a company, a liquidator, (except, in the case of the Issuer, a liquidator appointed for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Note Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes) provisional liquidator, administrator,

administrative receiver, receiver, manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian or other similar officer in respect of such company or in respect of any arrangement, compromise or composition with any creditors or any equivalent or analogous officer under the law of any jurisdiction;

**"Interest Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Interest Amount"** has the meaning given to such term in Condition 5.6 (*Determination of the Rate of Interest and Calculation of Interest Amounts*);

**"Interest Rate Swap Credit Support Annex"** means the 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) entered into on or around the Issue Date between the Interest Rate Swap Counterparty, the Issuer and the Note Trustee;

**"Interest Receipts"** means all payments of interest received in respect of the Collateral Loans and allocated as such by the Collateral Administrator including without limitation (in each case without double counting):

- (a) any amount received in respect of any interest on any Collateral Loan; and
- (b) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Interest Receipts payable by the Offeror;

**"Interim Exchange Amount"** means each interim exchange amount payable by the Currency Swap Counterparty under the Currency Swap Agreement;

**"Investor Report"** has the meaning given to such term in the Administration Agreement;

**"ISDA Master Agreement"** means the International Swaps and Derivatives Association Inc., Master Agreement 1992 (Multi-Currency Cross Border) Edition;

**"Issue Date Purchase Price"** means the acceptance price payable on the Issue Date for the purposes of accepting the offer of the assignment of the Collateral Loans and obtaining the beneficial interest in the Related Security (if any);

**"Issuer Accounts"** means collectively, the Interest Account, the Principal Account, the Reserve Account, the Swap Account, the Note Proceeds Account, the Euro Account, the Cash Collateral Account, the Swap Termination Account, the Swap Collateral Account, the Liquidity Facility Account and the Liquidity Facility Stand-by Drawing Account;

**"Issuer Covenants"** means the covenants made by the Issuer under the Incorporated Terms Memorandum;

**"Issuer Final Exchange Amount"** means the final exchange amount payable by the Issuer under the Currency Swap Agreement;

**"Issuer Interim Exchange Amount"** means each interim exchange amount payable by the Issuer under the Currency Swap Agreement;

**"Issuer Profit Amount"** means an amount as described by the directors of the Issuer which shall be £10,500 on each of the Note Payment Dates falling in 2011, and thereafter £1,200 per annum, credited in equal portions on each Note Payment Date to the Issuer Profit Ledger of the Interest Account and to be retained (subject to the payment by the Issuer therefrom of any corporation tax due from the Issuer in respect of its profits) by the Issuer as profit in respect of the business of the Issuer;

**"Issuer Profit Ledger"** means the ledger opened by the Cash Administrator and designated the Issuer Profit Ledger in the Interest Account;

**"Issuer Share"** means at any date of calculation (i) in respect of a Collateral Loan in respect of which no Deferred Purchase Price is payable by the Issuer, 100%; (ii) in respect of a Collateral Loan in respect of which Deferred Purchase Price is payable by the Issuer, a percentage which is a fraction, the numerator

of which is the Funded Aggregate Principal Balance of such Collateral Loan and the denominator of which is the Aggregate Principal Balance of such Collateral Loan in each case as calculated by the Cash Administrator, provided that the Issuer Share shall not exceed 100%. For the avoidance of doubt, the term "Issuer Share" should not be construed as creating or purporting to create any proprietary interest of the Offeror or any Noteholder in the Collateral Loans (or the Related Security, if any);

"**ITA 2007**" has the meaning given to such term in Condition 3.2 (*Title*);

"**Lead Manager**" means Lloyds TSB Bank plc in its capacity as lead manager under the Subscription Agreement;

"**LIBOR**" for each Quarterly Interest Period means the rate for deposits in Sterling for a period of three (3) months which appears on Reuters Page LIBOR 01 as of 11:00 a.m. (London time) on the LIBOR Determination Date (other than the first Quarterly Interest Period, which will be determined by a linear interpolation of the rate for deposits in Sterling for a period of 4 months and 5 months), all as determined by the Agent Bank. If Reuters Page LIBOR 01 is not available or if no such quotation appears thereon, in each case as at such time, the Agent Bank shall request the Reference Banks selected by it to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in Sterling at approximately 11:00 a.m. (London time) on the relevant LIBOR Determination Date (other than the first Quarterly Interest Period, which will be determined by a linear interpolation of the rate for deposits in Sterling for a period of 4 months and 5 months) to prime banks in the London inter-bank market for the relevant Quarterly Interest Period and in an amount that is representative for a single transaction in that market at that time. If two or more of the selected Reference Banks provide the Agent Bank with such offered quotations, LIBOR for such Quarterly Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards). If on the relevant LIBOR Determination Date fewer than two of the selected Reference Banks provide the Agent Bank with such offered quotations, LIBOR for such Quarterly Interest Period shall be the rate per annum which the Agent Bank determines as being the arithmetic mean (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards) of the rates communicated to (and at the request of) the Agent Bank by major banks in London, selected by the Agent Bank, at approximately 11:00 a.m. (London time) on such LIBOR Determination Date for loans in Sterling to leading European banks for such Quarterly Interest Period and in an amount that is representative for a single transaction in that market at that time;

"**LIBOR Determination Date**" means, for each Quarterly Interest Period, the first Business Day of such Quarterly Interest Period and, in respect of the first Quarterly Interest Period, the Issue Date;

"**Liquidity Facility**" means the liquidity facility provided to the Issuer under the Liquidity Facility Agreement, under which drawings can be made by the Issuer in order to meet certain shortfalls in Revenue Available Funds;

"**Liquidity Facility Account**" means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

"**Liquidity Facility Stand-by Drawing**" means a drawdown of the entire undrawn portion of the Liquidity Facility required to be made, in accordance with the terms of the Liquidity Facility Agreement by the Issuer if, at any time, the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Facility Provider are (a) assigned a credit rating of less than any of the IAB Required Ratings and/or such rating is withdrawn and (b) within thirty (30) calendar days of such downgrading or withdrawal the Liquidity Facility Provider is not replaced by the Issuer with a suitable alternative liquidity facility provider with the IAB Required Ratings, or a third party having the IAB Required Ratings has not guaranteed the obligations of the Liquidity Facility Provider, or any other solution is not found unless a Rating Agency Confirmation has been provided;

"**Liquidity Facility Stand-by Drawing Account**" means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

"**Lloyds Banking Group**" means Lloyds Banking Group plc and its subsidiary and associated undertakings from time to time;

**"Loan Agreement"** means a facility agreement in relation to a Collateral Loan entered into between the relevant Borrower and, amongst others, the Offeror, as amended, restated and/or novated from time to time;

**"Maximum Portfolio Funded Principal Balance"** means £1.22 billion, such amount which the Funded Aggregate Principal Balance of all Collateral Loans may not exceed;

**"Meeting"** means a meeting of Noteholders of any Class (whether originally convened or resumed following an adjournment) held pursuant to the Trust Deed;

**"Minimum Required Ratings"** means each or any of the Collection Account Bank Required Ratings, IAB Required Ratings, Notification Required Ratings, Potential Set-Off Required Ratings and Swap Counterparty Required Ratings;

**"Monthly Period"** means, for each Monthly Reconciliation Date, the preceding calendar month provided that the first Monthly Period shall commence on the Issue Date;

**"Monthly Reconciliation Date"** means the 6th calendar day of each calendar month and the first Monthly Reconciliation Date shall be August 2011;

**"Moody's"** means Moody's Investors Service Limited;

**"Most Senior Class"** has the meaning given to it in Condition 12.1 (*Determination of an Event of Default*);

**"Net Proceeds"** shall be the proceeds of, in respect of a Defaulted Collateral Loan:

- (a) enforcement on any Related Security securing such Defaulted Collateral Loan;
- (b) the collection, if any, of any amounts under insurance policies in connection with such Defaulted Collateral Loan;
- (c) any guarantees or sureties issued in connection with such Defaulted Collateral Loan; and
- (d) enforcement on any other assets of the relevant debtor under such Defaulted Collateral Loan,

in each case, after deduction of enforcement costs, and to the extent of such amounts received by the Offeror only after such Defaulted Collateral Loan has become a Defaulted Collateral Loan, and in each case, in respect of such Defaulted Collateral Loan, to which the Issuer is entitled in respect of such Defaulted Collateral Loan (taking into account the Issuer's *pro rata* entitlement to such proceeds as determined by reference to the outstanding principal amount of the relevant obligations on the date on which the Credit Event in respect of such Defaulted Collateral Loan occurred);

**"Note Calculation Date"** means the fifth Business Day before each Note Payment Date;

**"Note Certificate"** means a Global Note Certificate or an Individual Note Certificate;

**"Note Payment Date"** has the meaning given to such term in Condition 5.2 (*Interest Periods and Note Payment Dates*);

**"Note Principal Redemption Amounts"** has the meaning given to such term in Condition 7.3 (*Note Principal Redemption Amounts*);

**"Note Proceeds Account"** means the account in such name, denominated in Sterling, opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Noteholder"** means the holders of the Notes from time to time;

**"Notification Required Ratings"** means ratings of at least (i) Baa3 by Moody's or (ii) BBB- by Fitch in respect of the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror;

"**Offeror**" means Lloyds TSB Bank plc;

"**Other Related Security**" means Related Security taken by the Offeror where such Related Security was taken in respect of a Collateral Loan only and which only secures the relevant Borrower's obligations towards the Offeror under the Collateral Loans;

"**Outstanding**" means, in relation to the Notes, all the Notes other than:

- (a) those Notes which have been redeemed in full and cancelled in accordance with the Conditions;
- (b) those Notes in respect of which the date for redemption, in accordance with the relevant Conditions, has occurred and the redemption moneys (including premium (if any) and all interest payable in respect thereof and any interest payable under the relevant Conditions after such date) have been duly paid to the Note Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Noteholders in accordance with Condition 16 (*Notices*) of the Conditions) and remain available for payment against presentation of the relevant Notes;
- (c) those Notes which have become void under Condition 9 (*Prescription*) of the Conditions; and
- (d) those Notes, if any, which have been purchased and surrendered for cancellation pursuant to Condition 19 (*Replacement of Notes*) and notice of the cancellation of which has been given to the Note Trustee;

*provided that* for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Noteholders of a Class, an Extraordinary Resolution in writing as envisaged by Schedule 4 (*Provisions for Meetings of Noteholders*) of the Trust Deed and any direction or request by the holders of the Notes of any Class or Classes;
- (ii) the determination of how many and which of the relevant Notes are for the time being Outstanding for the purposes of Clauses 13 (*Enforcement of Security*), 20 (*Appointment, Retirement and Removal of Note Trustee*) and 9 (*Waiver, Determination and Modification*) of the Trust Deed, Schedule 4 (*Provisions for Meetings of Noteholders*) of the Trust Deed and Conditions 12 (*Events of Default*), 13 (*Enforcement*) and 17 (*Meetings of Noteholders*); and
- (iii) any discretion, power or authority (whether contained in the Trust Deed or vested by operation of law) which the Note Trustee is required, expressly or implicitly, to exercise in or by reference to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held by, for the benefit of, or on behalf of, the Issuer and not cancelled shall (unless and until ceasing to be so held) be deemed not to remain Outstanding;

"**Post Enforcement Priority of Payments**" means the post enforcement priority of payments as set out in the Administration Agreement;

"**Potential Set-Off Amount**" means, in respect of any Note Payment Date, an amount equal to the sum of all amounts in respect of each Borrower, separately, which will be the lower of:

- (a) the aggregate amount standing to the credit of each current account, savings account and/or deposit held by the Borrower of the relevant Collateral Loan(s) with the Offeror and any positive mark to market value of any derivative transactions with the Borrower; and
- (b) the Funded Aggregate Principal Balance of the relevant Collateral Loan(s) with such Borrower,

as reported in the relevant Investor Report to be provided by the Cash Administrator under the Administration Agreement;

**"Potential Set-Off Required Ratings"** means in respect of the short term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror, ratings of at least F1 by Fitch or P 1 by Moody's or in respect of the long term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror, a rating of at least A by Fitch, **provided that**, if the Offeror's long term unsecured, unsubordinated and unguaranteed ratings have been placed on "Ratings Watch Negative" by Fitch, the Offeror will be required to have long term unsecured, unsubordinated and unguaranteed ratings of at least A+ by Fitch;

**"Principal Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Principal Amount Outstanding"** means, on any date in relation to a Note, the Initial Principal Amount less (i) the aggregate of all Note Principal Redemption Amounts that have been paid by the Issuer in respect of that Note on or prior to that date and (ii) in respect of the Class D Notes, any amounts written down from the Class D Notes in accordance with Condition 7.10;

**"Principal Deficiency Ledgers"** means the ledgers established on behalf of the Issuer by the Cash Administrator in respect of the Rated Notes in order to record the amount of any Defaulted Collateral Loans and the application of the Revenue Available Funds to make up any debit entries;

**"Principal Priority of Payments"** means the principal priority of payments as set out in the Administration Agreement;

**"Principal Receipts"** means all principal payments received in respect of the Collateral Loans, including without limitation (in each case without double counting):

- (a) amounts received in respect of any maturity, scheduled amortisation or mandatory prepayment on any Collateral Loan;
- (b) unscheduled principal receipts received as a result of optional redemptions and prepayments (including any acceleration);
- (c) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Principal Receipts payable by the Offeror; and
- (d) any other principal payments with respect to Collateral Loans;

**"Priority of Payments"** means the Post Enforcement Priority of Payments, the Revenue Priority of Payments and/or Principal Priority of Payments, as applicable;

**"Prospectus Directive"** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the Prospectus to be Published When Securities Are Offered to the Public or Admitted to Trading and Amending Directive 2001/34/EC, and includes any relevant implementing measure in each Relevant Member State;

**"Proxy"** means, in relation to any Meeting, a person appointed to vote under a Block Voting Instruction other than:

- (a) any person whose appointment has been revoked and in relation to whom the Principal Paying Agent has been notified in writing of such revocation by the time which is 48 hours before the time fixed for such Meeting; and
- (b) any person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;

**"Qualifying Noteholder"** has the meaning given to such term in Condition 3.2 (*Title*);

**"Quarterly Interest Period"** has the meaning given to such term in Condition 5.2 (*Interest Periods and Note Payment Dates*);

**"Rate of Interest"** has the meaning given to such term in Condition 5.3 (*Rate of interest*);

**"Rating Agencies"** means Fitch and Moody's;



**"Rating Agency Confirmation"** means receipt of written confirmation from each Rating Agency that the relevant action, determination or appointment will not result in the reduction or withdrawal of any of the ratings then assigned to the Notes rated by that Rating Agency *provided that* the Rating Agencies shall not be obliged to issue a Rating Agency Confirmation and in circumstances where a Rating Agency is not willing to issue a Rating Agency Confirmation due to its then prevailing policy regarding the issue of Rating Agency Confirmations, an authorised signatory of the Issuer (or the Collateral Administrator on its behalf) has certified in writing to the Note Trustee that, in its opinion (and where a Rating Agency was prepared to consult with the Issuer (or the Collateral Administrator, as applicable) this opinion is based on consultation with that Rating Agency) such amendment would not cause the ratings of the Notes to be reduced or withdrawn by the Rating Agencies and *provided further that* a Rating Agency Confirmation from Fitch shall not be required but Fitch shall be notified of the proposed action, determination or appointment.

**"Ratings Downgrade Call Date"** has the meaning given to such term in Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*);

**"Ratings Downgrade Call Option"** has the meaning given to such term in Condition 7.5 (*Redemption of the Notes following the exercise of the Ratings Downgrade Call Option*);

**"Realisation"** has the meaning given to such term in Condition 11.1 (*Limited Recourse*);

**"Receiver"** means any receiver, manager, receiver or manager, or administrative receiver appointed in respect of the Issuer by the Note Trustee in accordance with the provisions of the Trust Deed;

**"Reconciliation Amount"** means the positive difference, if any, between (A) the amounts transferred from the Collection Accounts to the Interest Account and/or the Principal Account during the Monthly Period and (B) the amounts (in respect of Interest Receipts and Principal Receipts) actually received from Borrowers during the Monthly Period allocable to Collateral Loans;

**"Record Date"** has the meaning given to such term in Condition 6.6. (*Record date*);

**"Reference Banks"** means four major banks in the Euro-zone inter-bank market selected by the Agent Bank for the purposes of determining LIBOR and/or EURIBOR, as applicable;

**"Regulatory Call Date"** has the meaning given to such term in Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*);

**"Regulatory Call Option"** has the meaning given to such term in Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*);

**"Regulatory Change"** has the meaning given to such term in Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*);

**"Related Security"** means, in relation to a Collateral Loan, any underlying security for the repayment of that Collateral Loan which comprises of All Moneys Security, or other types of security in which both the Offeror and the Issuer have beneficial interests, and Other Related Security;

**"Relevant Member State"** means each member state of the European Economic Area that has implemented the Prospectus Directive;

**"Replenishment/Redemption Available Funds"** means an amount equal to the sum of the following:

- (a) the Issuer Share of the aggregate amount of any repayment and prepayment in full or in part of principal amounts under the Collateral Loans, from any person, whether by set-off or otherwise (but excluding prepayment penalties);
- (b) the amount of any Interim Exchange Amount or the Final Exchange Amount to be received from the Currency Swap Counterparty under the Currency Swap Agreement on the immediately following Note Payment Date, provided that such amounts are only available for the payment by the Issuer to the Class A2 Notes;
- (c) the Issuer Share of the aggregate amount of any amounts received;

- (i) in respect of a sale of a Collateral Loan (other than a Defaulted Collateral Loan) under the Portfolio Offer Deed or the Trust Deed, as the case may be; and
- (ii) in respect of any other amounts received under the Portfolio Offer Deed in connection with a Collateral Loan (other than a Defaulted Collateral Loan),

in each case, to the extent such amounts relate to principal amounts;

- (d) any amounts to be credited to the Principal Deficiency Ledgers on the immediately following Note Payment Date, *provided that*, before the expiry of the Replenishment Period, such amount shall not be included in the application of funds in accordance with item (b) of the Principal Priority of Payments and instead shall be applied at items (a) and (c) of the Principal Priority of Payments and items thereafter;
- (e) any Set-Off Amount received from the Offeror or amounts drawn down under the Offeror Indemnity Loan Facility Agreement which shall be applied in accordance with the provisions of the Offeror Indemnity Loan Facility Agreement on the immediately following Note Payment Date, to the extent such amounts relate to principal;
- (f) any Reconciliation Amounts paid to the Issuer to the extent such amounts relate to principal;
- (g) if no Swap Replacement Transaction has been entered into on or before the Swap Replacement Cut-Off Date, all relevant amounts standing to the credit of the Swap Termination Account; and
- (h) any Additional Collateral Loan Accrued Interest Payment, Further Advance Accrued Interest Payment and Unfunded Drawing Accrued Interest Payment;

**"Replenishment Criteria"** means the replenishment criteria set out in schedule 5 (*Replenishment Criteria*) to the Portfolio Offer Deed;

**"Replenishment Period"** means a period from and including the Issue Date up to and including the Note Payment Date falling in September 2012, provided that the Replenishment Period shall terminate if the amount standing to the credit of the Reserve Account is less than £20,000,000;

**"Required Amount"** means, in respect of any Note Payment Date, an amount equal to:

- (a) zero, unless the rating of the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror falls below F1 by Fitch or P-1 by Moody's or the rating of the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Offeror falls below A by Fitch, **provided that**, if the Offeror's long-term unsecured, unsubordinated and unguaranteed ratings have been placed on "Ratings Watch Negative" by Fitch, the Offeror will be required to have long-term unsecured, unsubordinated and unguaranteed ratings of at least A+ by Fitch or any such rating is withdrawn; or
- (b) 100 per cent. of the aggregate of the Set-Off Shortfall and the Required Tax Payment (if any), if the Offeror fails to satisfy any of the Potential Set-Off Required Ratings,

*provided that*, the **"Required Amount"** shall be zero, if all Rated Notes have been redeemed in full in accordance with the Conditions and *provided further that*, following payment of the Required Tax Payment (if any) by the Offeror to the Issuer, item (b) of the Required Amount shall be reduced by an amount equal to such Required Tax Payment;

**"Reserve Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Reserved Matter"** means any proposal which would have the effect of:

- (a) postponing or altering the date of maturity of the Notes in respect of any Class of Notes;
- (b) postponing or altering any day for the payment of interest in respect of any Class of Notes;
- (c) postponing or altering the Rate of Interest payable in respect of any Class of Notes;
- (d) postponing, altering, reducing or cancelling the amount of principal payable in respect of any Class of Notes;

- (e) postponing or altering the date or priority of redemption of the Notes in respect of any Class of Notes;
- (f) altering the majority required to pass an Extraordinary Resolution; or
- (g) altering this definition of Reserved Matter;

"**Revenue Available Funds**" means the sum of the following (without double counting):

- (a) the Issuer Share of any interest received by the Issuer on the Collateral Loans;
- (b) any interest credited to any of the Issuer Accounts (with the exception of the Swap Collateral Account and the Cash Collateral Account);
- (c) the Issuer Share of the aggregate amount of any Net Proceeds;
- (d) the Issuer Share of the aggregate amount received in respect of a sale of a Defaulted Collateral Loan;
- (e) any amounts that can be drawn from the Reserve Account in respect of a Revenue Shortfall on the immediately following Note Payment Date;
- (f) any amounts to be drawn under the Liquidity Facility (other than the Liquidity Facility Stand-by Drawing but including any Liquidity Facility Drawing from the Liquidity Facility Stand-by Drawing Account) on the immediately following Note Payment Date in accordance with the Liquidity Facility Agreement;
- (g) any amounts (other than any Issuer Interim Exchange Amount and the Final Exchange Amount) in respect of scheduled payments to be received from the Currency Swap Counterparty under the Currency Swap Agreement on the immediately following Note Payment Date other than any Swap Collateral provided by the Currency Swap Counterparty under the Currency Swap Agreement, provided that such amounts are only available for the payment by the Issuer to the Class A2 Notes;
- (h) any net amounts to be received from the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement on the immediately following Note Payment Date other than any (i) Swap Collateral provided by the Interest Rate Swap Counterparty under the Interest Rate Swap Agreement, (ii) Additional Collateral Loan Accrued Interest Payment, (iii) Further Advance Accrued Interest Payment and (iv) Unfunded Drawing Accrued Interest Payment;
- (i) the Issuer Share of the aggregate amount received:
  - (i) in respect of a sale of Collateral Loans (other than a Defaulted Collateral Loan) under the Portfolio Offer Deed or the Trust Deed, as the case may be; and
  - (ii) in respect of any other amounts received under the Portfolio Offer Deed in connection with a Collateral Loan (other than a Defaulted Collateral Loan),
 in each case, to the extent such amounts do not relate to principal amounts;
- (j) after all amounts of interest and principal due in respect of the Notes, except for the principal amounts under the Class S Notes, have been paid on the Note Payment Date immediately preceding the relevant Note Calculation Date or will be paid on the immediately following Note Payment Date, any amount standing to the credit of the Reserve Account;
- (k) any Set-Off Amount received from the Offeror or drawn down under the Offeror Indemnity Loan Facility Agreement which shall be applied in accordance with the provisions of the Offeror Indemnity Loan Facility Agreement on the immediately following Note Payment Date and to the extent such amounts relate to interest amounts;
- (l) any income earned on Permitted Investments; and
- (m) any Reconciliation Amounts paid to the Issuer to the extent such amounts relate to interest,

*excluding* any amounts representing Swap Tax Credits;

**"Revenue Priority of Payments"** means the revenue priority of payments as set out in the Administration Agreement;

**"Revenue Shortfall"** means the extent to which the Revenue Available Funds are insufficient to meet the Issuer's obligations under items (a) to (k) inclusive of the Revenue Priority of Payments in full;

**"Security"** means the security rights created in favour of the Note Trustee pursuant to the Trust Deed;

**"Secured Amounts"** means the aggregate of all moneys and liabilities (present or future or actual or contingent) which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

**"Secured Creditors"** means the Note Trustee in its own capacity, any Receiver appointed by the Note Trustee in its own capacity, the Noteholders, the Agents, the relevant Swap Counterparty, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank, the GIC Provider, the Liquidity Facility Provider, the Offeror Indemnity Loan Facility Provider, the Corporate Services Provider and the Offeror (in respect of the Deferred Purchase Price);

**"Set-Off Amount"** means in relation to a Collateral Loan under which a Borrower has invoked a right of set-off for amounts due to it by the Offeror against amounts payable by it under such Collateral Loan and, as a consequence thereof, the Issuer has not received the amount which it is entitled to receive in respect of such Collateral Loan, the difference between the amount which the Issuer would have received in respect of such Collateral Loan if no set-off had taken place and the amount actually received by the Issuer in respect of such Collateral Loan, in each case, subject to the Issuer Share;

**"Set-Off Shortfall"** means the greater of (i) zero and (ii) an amount equal to the Potential Set-Off Amount *less* the Principal Amount Outstanding of the Class D Notes;

**"Specified Office"** means, with respect to the Principal Paying Agent and the Registrar, Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB or such other offices as may from time to time be duly notified pursuant to Condition 16 (*Notices*);

**"Sterling", "Pound"** and "**£**" shall be read as references to the lawful currency of the United Kingdom;

**"Subscription Agreement"** means the subscription agreement dated on or about the Issue Date between, amongst others, the Arranger, the Lead Manager, the Issuer and the Note Trustee;

**"Swap Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Swap Agreements"** means collectively (i) the interest rate swap agreement entered into by the Issuer, the Note Trustee and the Swap Counterparty (or its successor) in order to hedge part of the interest rate risk the Issuer is exposed to pursuant to the interest rate income it will receive under the Collateral Loans (after taking into account payments made under the Interest Rate Swap Agreement) and the interest payments the Issuer is obliged to make under the Notes (the **"Interest Rate Swap Agreement"**) and (ii) the currency swap agreement entered into between the Issuer, the Note Trustee and the Swap Counterparty (or its successor) in order to hedge the Issuer's exposure to fluctuations in the GBP: EUR exchange rate and enable it to satisfy its payment obligations to the Noteholders of the Class A2 Notes (the **"Currency Swap Agreement"**);

**"Swap Collateral"** means the collateral transferred to the Issuer by the Interest Rate Swap Counterparty in accordance with the terms of the Interest Rate Swap Credit Support Annex and/or the Currency Swap Counterparty in accordance with the terms of the Currency Swap Credit Support Annex;

**"Swap Collateral Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Swap Counterparty"** means the swap counterparty under the relevant Swap Agreement and any successor thereof pursuant to such Swap Agreement;

**"Swap Counterparty Required Ratings"** means ratings of at least F1 (short-term) from Fitch and P-1 (short-term) from Moody's, and A (long-term) from Fitch and A2 (long-term) from Moody's and if there is no short-term rating from Moody's, the minimum required rating shall be A1 (long-term), **provided that**, if a Swap Counterparty's long-term rating has been placed on "Ratings Watch Negative" by Fitch, such Swap Counterparty will be required to have long-term rating of at least A+ (long-term) by Fitch;

**"Swap Replacement Cut-Off Date"** means the Business Day prior to the Note Payment Date falling immediately before the expiry of eighteen (18) months from the date of termination of the relevant Swap Agreement;

**"Swap Replacement Payment"** means any amount payable by the Issuer to a replacement Swap Counterparty (if any) upon entry into a Swap Replacement Transaction which is replacing a Swap Agreement which was terminated;

**"Swap Replacement Transaction"** means an ISDA Master Agreement (together with the Schedule, Confirmation and Credit Support Annex) entered into by the Issuer in accordance with the provisions of the Administration Agreement on or after termination of an existing Swap Agreement, on substantially the same terms as such terminated Swap Agreement, that preserves for the Issuer the economic effect of the terminated Swap Agreement, subject to such amendments thereto as may be agreed by the Note Trustee;

**"Swap Settlement Payment"** means any unscheduled amount payable to a Swap Counterparty under the Swap Agreements (including any termination or modification payment) excluding any Defaulted Swap Settlement Payments and any return of Swap Collateral payable by the Issuer to the relevant Swap Counterparty under the relevant Swap Agreement;

**"Swap Tax Credits"** means any amounts that the Issuer receives from HMRC, which must be paid by the Issuer to any Swap Counterparty pursuant to paragraph 5(j) of the Schedule to the relevant Swap Agreement (as the case may be);

**"Swap Termination Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with the Account Bank Agreement;

**"Swap Transaction"** means a swap transaction entered into between the Issuer and a Swap Counterparty under a Swap Agreement;

**"TARGET Settlement Day"** means any day on which the TARGET2 System is open for the settlement of payments in euro;

**"Tax"** means and shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income) imposed or levied by or on behalf of any Tax Authority;

**"Tax Authority"** means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world;

**"Tax Deduction"** means any deduction or withholding on account of Tax;

**"Taxes", "taxation", "taxable"** and comparable expressions shall be construed accordingly;

**"Transaction"** means the transaction entered into by, *inter alios*, the Issuer as described in the prospectus issued by the Issuer dated 22 July 2011;

**"Transaction Documents"** means collectively, the Agency Agreement, the Administration Agreement, the Trust Deed, the Corporate Services Agreement, the Swap Agreements, the Subscription Agreement, the Account Bank Agreement, the Incorporated Terms Memorandum, the Portfolio Offer Deed, the Liquidity Facility Agreement, the Offeror Indemnity Loan Facility Agreement, the Guaranteed Investment Contract, the Declaration of Trusts, the Beneficiaries Deed and any other document designated as such by the Issuer and the Note Trustee, and a reference to any of the above shall be to each as it may be modified and/or amended and/or supplemented and/or restated and/or novated from time to time;

"**Transaction Parties**" means the parties to the Transaction Documents and "**Transaction Party**" means any one of them;

"**Transfer to Recovery**" means in respect of any Borrower, the transfer of the accounts or group of accounts of the lender of record of the Borrower to Wholesale Banking Recoveries (WBR), the recovery unit of the lender of record, according to the standard practice of the lender of record;

"**Unfunded Amount**" means an undrawn amount under any Delayed Draw Obligation;

"**Unfunded Drawing**" means, in respect of a Collateral Loan, the part of such Collateral Loan which is not funded by the Issuer on the Issue Date, or as the case may be, the relevant Addition Date;

"**Unfunded Drawing Accrued Interest Payment**" means, on the relevant Addition Date in respect of an Unfunded Drawing relating to a Fixed Rate Collateral Loan, an amount equal to the accrued unpaid interest (if any) on such date in respect of the portion of Funded Aggregate Principal Balance of the Collateral Loan under which such Unfunded Drawing is made which relates to such Unfunded Drawing on such date; and

"**Voter**" means, in relation to any Meeting, a Proxy or a Noteholder; provided, however, that any Noteholder which has appointed a Proxy under a Block Voting Instruction or Form of Proxy shall not be a "Voter" except to the extent that such appointment has been revoked and the Registrar notified in writing of such revocation at least 48 hours before the time fixed for such Meeting.

## 2. **FORM AND DENOMINATION**

2.1 **Form and Denomination:** The Rated Notes are in registered form and will initially be represented by global notes in registered form ("**Global Notes**"). Individual note certificates will only be issued in the circumstances specified in the Global Notes ("**Individual Note Certificates**") and if issued will be, in respect of the Rated Notes, in Authorised Denominations. Each Individual Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. The Class D Notes will be in definitive registered form (the "**Class D Individual Note Certificate**") and the Class S Notes will be in definitive registered form (the "**Class S Individual Note Certificate**").

## 3. **REGISTER, TITLE AND TRANSFERS**

3.1 **Register:** The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

3.2 **Title:** Title to Notes represented by Global Notes shall pass by and upon registration in the Register which the Issuer shall procure to be kept by the Registrar. The registered holder of any Global Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Global Note regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).

Title to a Note represented by an Individual Note Certificate, a Class D Note or a Class S Note shall only pass by and upon registration in the Register provided that no transferee shall be registered as a new Class S Noteholder unless such transferee has certified to the Registrar that it is a Qualifying Noteholder. The Individual Note Certificates may be transferred in whole (but not in part) upon the surrender of the relevant Individual Note Certificate, with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar. All transfers of such Individual Note Certificates are subject to any restrictions on transfer set forth on such Individual Note Certificates and the detailed regulations concerning transfers in the Agency Agreement.

"**Qualifying Noteholder**" means:

- (a) a person which is beneficially entitled to interest in respect of the Class S Notes and is:

- (i) a company resident in the United Kingdom for United Kingdom tax purposes;
- (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Class S Notes in calculating the chargeable profits (within the meaning of section 19 of the Corporation Tax Act 2009 (the "CTA") of that company; or
- (iii) a partnership each member of which is:
  - (A) a company resident in the United Kingdom; or
  - (B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account in calculating its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of a payment of interest in respect of the Class S Notes that is attributed to it because of part 17 of the CTA; or
- (b) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 ("ITA 2007") and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007.

Each new Individual Note Certificate to be issued upon transfer of such Individual Note Certificate will, within five Business Days of receipt and surrender of such Individual Note Certificate (duly completed and executed) for transfer, be available for delivery at the Specified Office of the Registrar or be mailed at the risk of the transferee entitled to such Individual Note Certificate to such address as may be specified in the relevant form of transfer.

Registration of an Individual Note Certificate on transfer will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax, stamp tax or other government charges which may be imposed in relation to it.

The Notes are not issuable in bearer form.

- 3.3 **Transfers:** Subject to Conditions 3.2 (*Title*), 3.6 (*Closed periods*) and 3.7 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are in, with respect to the Rated Notes, Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- 3.4 **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with Condition 3.3 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office.
- 3.5 **No charge:** The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 **Closed periods:** Noteholders may not require transfers to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 **Regulations concerning transfers and registration:** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

#### 4. STATUS, RANKING, SECURITY AND ISSUER COVENANTS

4.1 **Status:** Notes of each Class constitute direct, secured, limited recourse obligations of the Issuer.

4.2 **Ranking:** The Notes of each Class will at all times rank *pari passu* and rateably without any ranking preference among themselves *provided that*, for the purposes of these Conditions, Class A1 Notes and Class A2 Notes are *pari passu* without any preference or priority among themselves and shall be treated as the same Class.

4.3 **Sole Obligations:** The Notes will be direct and limited recourse obligations solely of the Issuer secured over certain of the assets of the Issuer.

4.4 **Priority of Interest Payments:** Payments of interest on the Notes will at all times rank in the following order of priority:

- (a) Class A1 Notes and Class A2 Notes; then
- (b) Class B Notes; then
- (c) Class C Notes; then
- (d) Class S Notes,

in accordance with the relevant Priority of Payments.

No interest shall be payable on the Class D Notes.

4.5 **Priority of Principal Payments:** Payments of principal on the Notes will at all times rank in the following order of priority:

- (a) Class A1 Notes and Class A2 Notes; then
- (b) Class B Notes; then
- (c) Class C Notes; then
- (d) Class D Notes; then
- (e) Class S Notes,

in accordance with the relevant Priority of Payments.

4.6 **Security:** Subject to and under the Trust Deed, the Issuer has created the Security in favour of the Note Trustee for itself and on trust for the other Secured Creditors as security for the Secured Amounts:

- (a) a first fixed charge over the Issuer's present and future rights, title and interest (and all entitlements or benefits relating thereto) in and to each Permitted Investment and any other investments, in each case held by the Issuer from time to time, including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon,



thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;

- (b) an assignment by way of security (which shall take effect in equity prior to the occurrence of an Assignment Notification Event) or, to the extent such assignment is not effective, a first fixed charge over the Issuer's right, title and interest (and all entitlements or benefits relating thereto) in and to the Collateral Portfolio and the Issuer's beneficial interest in any Related Security (if any), and any other investments, in each case held by or on behalf of the Issuer, including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
- (c) a first fixed charge over the Issuer's right, title and interest in and to the Issuer Accounts (and, in the case of the Swap Collateral Account, only to the extent applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Interest Rate Swap Agreement or/and relevant Currency Swap Agreement) and any other bank or other accounts in which the Issuer may at any time have or acquire any benefit;
- (d) an assignment by way of security of the Issuer's right, title and interest in and to each Transaction Document (other than the Trust Deed and the Subscription Agreement);
- (e) a first fixed charge over all monies held from time to time by the Principal Paying Agent on behalf of the Issuer for payment of principal, interest or other amounts on the Notes;
- (f) an assignment by way of security of the Issuer's present and future rights under the Interest Rate Swap Agreement and the Currency Swap Agreement (without prejudice to, and after giving effect to, any contractual netting provision contained in the Interest Rate Swap Agreement or the Currency Swap Agreement, as the case may be) and each Swap Transaction entered into thereunder (including the Issuer's rights under any guarantee or credit support annex entered into pursuant to the Interest Rate Swap Agreement and the Currency Swap Agreement; provided that such assignment by way of security shall not in any way restrict the release of collateral granted thereunder in whole or in part at any time pursuant to the terms thereof); and
- (g) a first floating charge over the whole of the Issuer's undertaking and all the Issuer's property, assets and rights whatsoever and wheresoever present and future including, without limitation, the Issuer's uncalled capital.

The Security will become enforceable in accordance with Condition 13 (*Enforcement*).

- 4.7 **Issuer Covenants:** Save as permitted by the Transaction Documents, the Issuer Covenants contain certain covenants in favour of the Note Trustee from the Issuer which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness, dispose of assets or change the nature of its business. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

## 5. INTEREST

### 5.1 Period of Accrual

- (a) Each Note (other than the Class D Notes) shall bear interest on its Principal Amount Outstanding from (and including) the Issue Date.
- (b) Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue on such Note (before and after any judgement) at the rate applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal is made or (if earlier) the 7th day after notice is duly given

by the Principal Paying Agent to the holder of such Note (in accordance with Condition 16 (*Notices*)) that upon presentation thereof, such payments will be made, *provided that* upon such presentation payment is in fact made.

- (c) Interest in respect of any Quarterly Interest Period (or any other period) shall be calculated on the basis of the actual number of days elapsed in the Quarterly Interest Period (or such other period) and a year of (i) 360 days in the case of the Class A2 Notes and (ii) 365 days (and 366 days in a leap year) in the case of all other Notes.

## 5.2 **Interest Periods and Note Payment Dates**

- (a) Interest on each Note (other than the Class D Notes) is payable by reference to successive Quarterly Interest Periods.
- (b) Each successive Quarterly Interest Period will commence on (and include) a Note Payment Date and end on (but exclude) the next following Note Payment Date (each a "**Quarterly Interest Period**") except for the first interest period which will commence on (and include) the Issue Date and end on (but exclude) the Note Payment Date falling in December 2011 (the "**First Interest Period**").
- (c) Interest on each of the Notes (other than the Class D Notes) shall be payable quarterly in arrear in euro or Sterling (as applicable), in each case in respect of its Principal Amount Outstanding on the 20<sup>th</sup> day of March, June, September and December in each year (or, if such day is not a Business Day, the next following Business Day, unless such Business Day falls in the following calendar month in which case the day that is a Business Day immediately before such day) (each such day being a "**Note Payment Date**").

## 5.3 **Rate of interest**

The rate of interest payable from time to time in respect of the Notes (other than the Class D Notes) shall be determined by the Issuer (or if so directed by the Issuer, the Agent Bank) in accordance with this Condition 5 (*Interest*) and each interest rate so determined shall be the "**Rate of Interest**".

## 5.4 **Interest on the Rated Notes**

Interest in respect of each Class of the Rated Notes for each Quarterly Interest Period will accrue at an annual rate equal to the sum of:

- (a) for the Class A1 Notes, equal to LIBOR plus 1.70 per cent. per annum;
- (b) for the Class A2 Notes, equal to EURIBOR plus 1.60 per cent. per annum;
- (c) for the Class B Notes, equal to LIBOR plus 1.80 per cent. per annum; and
- (d) for the Class C Notes, equal to LIBOR plus 1.80 per cent. per annum.

## 5.5 **Interest on the Class D Notes and the Class S Notes**

No interest shall be payable in respect of the Class D Notes. Each Class S Note shall receive by way of interest excess amounts (if any) equal to the Revenue Available Funds remaining after the payment of all items with a higher priority of payment in the Revenue Priority of Payments.

## 5.6 **Determination of the Rate of Interest and calculation of Interest Amounts**

On or as soon as practicable after each LIBOR Determination Date or in respect of the Class A2 Notes, EURIBOR Determination Date, the Issuer shall calculate (or shall cause the Agent Bank to calculate) the interest payable on each of the Rated Notes for the relevant Quarterly Interest Period (the "**Interest Amount**") by applying the relevant Rate of Interest to the Principal Amount Outstanding of each of the Rated Class of Notes respectively in each case rounding the resulting figure to the nearest £0.01 (£0.005 being rounded upwards) or €0.01 (€0.005 being rounded upwards) as the case may be. The determination of the relevant Rate of Interest and

each Interest Amount by the Issuer (or if so directed by the Issuer, the Agent Bank) shall (in the absence of manifest error) be final and binding on all parties.

**5.7 Notification of Rate of Interest and Interest Amounts**

The Agent Bank will cause the relevant Rate of Interest and the relevant Interest Amount applicable to each Class of the Rated Notes for the relevant Quarterly Interest Period and the Note Payment Date on which that Quarterly Interest Period will end, to be notified to the Issuer, the Note Trustee, the Principal Paying Agent, the Issuer Account Bank, the Cash Administrator and, for so long as the Rated Notes are listed with the Irish Stock Exchange will cause notice thereof to be given in accordance with Condition 16 (*Notices*), as soon as possible after the determination thereof. The Rate of Interest, Interest Amount, Quarterly Interest Period and Note Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Quarterly Interest Period.

**5.8 Determination or calculation by the Note Trustee**

If the Issuer (or if so directed by the Issuer, the Agent Bank) at any time for any reason does not determine the relevant Rate of Interest or fails to calculate the relevant Interest Amounts in accordance with this Condition 5 (*Interest*), the Note Trustee may (without liability) determine or procure the determination of the relevant Rate of Interest, at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition 5 (*Interest*)), it shall deem fair and reasonable under the circumstances, or, as the case may be, the Note Trustee may (without liability) calculate the relevant Interest Amounts in accordance with this Condition 5 (*Interest*), and each such determination and/or calculation shall be deemed to have been made by the Issuer and shall be final and binding on all parties.

**6. PAYMENT**

**6.1 Payments of Principal**

Payments of principal shall be made by the Issuer, through the Principal Paying Agent, on each Note Payment Date to, or to the order of, the ICSDs, as relevant, for credit to the relevant participants in the ICSDs for subsequent transfer to the Noteholders or, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for payment, by transfer to an account in Sterling or euro, as the case may be, maintained by the payee and (and in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of the Principal Paying Agent, or, in respect of the Class D Notes or the Class S Notes by transfer to the account specified by the Class D Noteholder or the Class S Noteholder (as the case may be) to the Principal Paying Agent in accordance with the terms of the Agency Agreement.

**6.2 Payments of Interest**

Payments of interest shall be made by the Issuer, through the Principal Paying Agent, on each Note Payment Date to, or to the order of, the ICSDs, as relevant, for credit to the relevant participants in the ICSDs for subsequent transfer to the Noteholders or, in respect of the Class A Notes, the Class B Notes and the Class C Notes, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for payment by transfer to an account in Sterling or euro, as the case may be, maintained by the payee in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment, endorsement) of the relevant Note Certificates at the Specified Office of the Principal Paying Agent.

**6.3 Payments subject to fiscal laws**

All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

#### 6.4 **Business Days**

In this Condition 6, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

#### 6.5 **Partial Payments**

If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

#### 6.6 **Record date**

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where the "**Clearing System Business Day**" means a day on which each of Euroclear and Clearstream, Luxembourg is open for business.

#### 6.7 **Notifications to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them), the Principal Paying Agent, the Agent Bank or the Note Trustee shall (in the absence of any manifest error) be binding on the Issuer and all Noteholders and (in the absence of any manifest error) no liability shall attach to the Noteholders, the Reference Banks, the Agents, or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 6.

### 7. **REDEMPTION, PURCHASE AND CANCELLATION**

#### 7.1 **Final redemption**

Unless previously redeemed or cancelled, subject always to Condition 10 (*Subordination*), the Issuer shall redeem the Notes on the Final Maturity Date.

#### 7.2 **Mandatory redemption in part**

7.2.1 Prior to the expiry of the Replenishment Period, the Issuer will apply amounts received under item (d) of the definition of Replenishment/Redemption Available Funds:

- (A) *first*, in redeeming, *pro rata* and *pari passu*, the Class A1 Notes and Class A2 Notes until there are no Class A1 Notes or Class A2 Notes outstanding;
- (B) *second*, in redeeming, *pro rata* and *pari passu*, the Class B Notes until there are no Class B Notes outstanding;
- (C) *third*, in redeeming, *pro rata* and *pari passu*, the Class C Notes until there are no Class C Notes outstanding;
- (D) *fourth*, in redeeming, *pro rata* and *pari passu*, the Class D Notes until there are no Class D Notes outstanding; and
- (E) *fifth*, in redeeming, *pro rata* and *pari passu*, the Class S Notes until there are no Class S Notes outstanding,

in accordance with the relevant Priority of Payments.

7.2.2 Following the expiry of the Replenishment Period, subject to:

- (a) the Issuer having sufficient Replenishment/Redemption Available Funds on a Note Payment Date;
- (b) the Note Trustee not having delivered an Enforcement Notice in accordance with Condition 12 (*Events of Default*); and
- (c) the provisions of Condition 10 (*Subordination*),

the Issuer will apply Replenishment/Redemption Available Funds (in whole or in part):

- (A) *first*, in redeeming, *pro rata* and *pari passu*, the Class A1 Notes and Class A2 Notes until there are no Class A1 Notes or Class A2 Notes outstanding;
- (B) *second*, in redeeming, *pro rata* and *pari passu*, the Class B Notes until there are no Class B Notes outstanding;
- (C) *third*, in redeeming, *pro rata* and *pari passu*, the Class C Notes until there are no Class C Notes outstanding;
- (D) *fourth*, in redeeming, *pro rata* and *pari passu*, the Class D Notes until there are no Class D Notes outstanding; and
- (E) *fifth*, in redeeming, *pro rata* and *pari passu*, the Class S Notes until there are no Class S Notes outstanding,

in accordance with the relevant Priority of Payments.

7.3 **Note Principal Redemption Amounts**

- (a) The principal amounts so redeemable in respect of each Class of Notes (the "**Note Principal Redemption Amounts**") shall be the amount of Replenishment/Redemption Available Funds on the Note Calculation Date for that Note Payment Date that can be applied in redemption of the Notes of that Class in accordance with the relevant Priority of Payments.
- (b) Each Note shall be redeemed in an amount equal to:
  - (i) the Note Principal Redemption Amounts for that Class; divided by
  - (ii) the number of Notes of that Class,rounded down to the nearest pound or in respect of Class A2 Notes, euro.
- (c) Following application of the Note Principal Redemption Amounts to redeem a Note under this Condition 7 (*Redemption, Purchase and Cancellation*), the Principal Amount Outstanding of such Note shall be reduced accordingly.
- (d) Any excess Replenishment/Redemption Available Funds available as a result of rounding following the application of the applicable Note Principal Redemption Amounts to redeem a Note under Condition 7.2 (*Mandatory redemption in part*) shall remain in the Principal Account and be aggregated with the Replenishment/Redemption Available Funds for the relevant Class of Notes in respect of the next Note Payment Date.

#### 7.4 **Note redemption determinations**

- (a) On each Note Calculation Date following the expiry of the Replenishment Period, the Issuer shall determine (or shall cause the Cash Administrator to determine):
- (i) the Replenishment/Redemption Available Funds;
  - (ii) the Note Principal Redemption Amounts for each Class of Notes; and
  - (iii) the Principal Amount Outstanding of each Class of Notes,
- and each such determination by or on behalf of the Issuer (or if so directed by the Issuer, the Cash Administrator shall in each case (in the absence of manifest error) be final and binding on all persons.
- (b) Two (2) Business Days prior to the relevant Note Payment Date, the Cash Administrator shall notify the determination of:
- (i) the Replenishment/Redemption Available Funds for each Class of Notes;
  - (ii) the Note Principal Redemption Amounts; and
  - (iii) the Principal Amount Outstanding of each Class of Notes,
- to the Note Trustee, the Agents, the Issuer, Euroclear and/or Clearstream, Luxembourg, for as long as the Rated Notes are listed on the Irish Stock Exchange, to the Irish Stock Exchange.
- (c) If there is no Note Principal Redemption Amounts to be applied to the Notes on any applicable Note Payment Date, a notice to this effect will be given by the Cash Administrator on behalf of the Issuer to the Noteholders in accordance with Condition 16 (*Notices*).
- (d) If the Cash Administrator does not at any time for any reason determine:
- (i) the Replenishment/Redemption Available Funds for each Class of Notes;
  - (ii) the Note Principal Redemption Amounts; and
  - (iii) the Principal Amount Outstanding of each Class of Notes,
- such amounts may (without liability) be determined by the Note Trustee or the Note Trustee may procure such determination in accordance with this Condition 7 (*Redemption, Purchase and Cancellation*) and each such determination or calculation shall be deemed to have been made by the Issuer and shall in each case (in the absence of manifest error) be final and binding on all persons.

#### 7.5 **Redemption of the Notes following the exercise of the Ratings Downgrade Call Option**

- (a) The Portfolio Offer Deed provides that the Offeror has the right (but not the obligation) (the "**Ratings Downgrade Call Option**") to serve a notice to the Issuer and the Note Trustee to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Business Day specified in such a notice which shall be no earlier than 3 Business Days from the date of such notice (the "**Ratings Downgrade Call Date**") if the Notification Required Ratings are not satisfied by the Offeror if it has delivered a certificate to the Issuer and the Note Trustee confirming that sufficient Available Funds will be available to, on the Ratings Downgrade Call Date, (A) redeem the Rated Notes in whole at their Principal Amount Outstanding, plus any accrued but unpaid interest and (B) pay all amounts in priority thereto under the relevant Priority of Payments.
- (b) If the Offeror exercises the Ratings Downgrade Call Option as described under paragraph (a) of this Condition 7.5 (*Redemption of the Notes following the exercise of*

*the Ratings Downgrade Call Option*), the Issuer shall on the Ratings Downgrade Call Date on which the purchase price in respect of all Collateral Loans repurchased by the Offeror is received redeem the Notes.

#### 7.6 **Redemption of the Notes following the exercise of the Clean-Up Call Option**

- (a) The Portfolio Offer Deed provides that the Offeror has the right (but not the obligation) (the "**Clean-Up Call Option**") to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date (the "**Clean-Up Call Date**") if:
- (i) on such date the Aggregate Principal Balance of all Collateral Loans does not exceed 10 per cent. of the sum of the Aggregate Principal Balance of all Collateral Loans on the Issue Date;
  - (ii) it has notified the Issuer and the Note Trustee on a date that is no less than 10 and no more than 30 Business Days before the Clean-Up Call Date; and
  - (iii) it has delivered a certificate to the Issuer and the Note Trustee confirming that sufficient Available Funds will be available to, on the Clean-Up Call Date, (A) redeem the Rated Notes in whole at their Principal Amount Outstanding plus any accrued but unpaid interest and (B) pay all amounts in priority thereto under the relevant Priority of Payments;
- (b) If the Offeror exercises the Clean-Up Call Option in accordance with paragraph (a) of this Condition 7.6 (*Redemption of the Notes following the exercise of the Clean-Up Call Option*), the Issuer shall on the Clean-Up Call Date redeem the Notes.

#### 7.7 **Redemption of the Notes following the exercise of the Regulatory Call Option**

- (a) The Portfolio Offer Deed provides that the Offeror has the right (but not the obligation) (the "**Regulatory Call Option**") to purchase all the Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date (the "**Regulatory Call Date**") if there is a change in:
- (i) the capital accord promulgated by the Basel Committee on Banking Supervision (the "**Capital Accord**"); or
  - (ii) there is a change in the manner in which Capital Accord is interpreted or applied by the Basel Committee on Banking Supervision or by any relevant competent international, European or national body (including any relevant international or European Central Bank, the Bank of England or any other competent regulatory or supervisory authority),
- which change the Offeror could reasonably not have foreseen on the date of execution of the Portfolio Offer Deed and which change, in the opinion of the Offeror has the effect of adversely affecting the rate of return on capital of the Lloyds Banking Group or increasing the cost or reducing the benefit to the Lloyds Banking Group in each case, in relation to the Transaction (each such change, a "**Regulatory Change**").
- (b) Notwithstanding (a) above, the Offeror will only be able to exercise the Regulatory Call Option if (i) it has given written notice to the Issuer and the Note Trustee no less than 10 and no more than 30 Business Days prior to the Regulatory Call Date and (ii) it has delivered a certificate to the Issuer and the Note Trustee confirming that sufficient Available Funds will be available to, on the Regulatory Call Date, (A) redeem the Rated Notes in whole at their Principal Amount Outstanding, plus any accrued but unpaid interest and (B) pay all amounts in priority thereto under the relevant Priority of Payments.
- (c) If the Offeror exercises the Regulatory Call Option in accordance with paragraphs (a) and (b) of this Condition 7.7 (*Redemption of the Notes following the exercise of the Regulatory Call Option*), the Issuer shall on the Regulatory Call Date redeem the Notes.

7.8 **Redemption of the Notes following the exercise of the General Call Option**

- (a) The Portfolio Offer Deed provides that the Offeror has the right (but not the obligation) (the "**General Call Option**") to purchase all Collateral Loans and re-acquire the Issuer's beneficial interest in the Related Security (if any) in respect of such Collateral Loans on any Note Payment Date following the repayment in full of the Class A1 Notes and the Class A2 Notes (the "**General Call Date**"). Upon the exercise by the Offeror of the General Call Option, the Issuer shall redeem the Notes on the General Call Date.
- (b) The General Call Option may only be exercised if (i) the Offeror has given written notice to the Issuer and the Note Trustee at least ten (10) and not more than thirty (30) Business Days prior to the General Call Date and (ii) it has delivered a certificate to the Issuer and the Note Trustee confirming that sufficient Available Funds will be available to, on the General Call Date, (A) redeem the Rated Notes in whole at their Principal Amount Outstanding, plus any accrued but unpaid interest and (B) pay all amounts in priority thereto under the relevant Priority of Payments.

7.9 **Redemption for tax reasons**

- (a) The Notes may be redeemed at the option of the Issuer (but the Issuer shall have no obligation to do so) in whole (but not in part) on any Note Payment Date, if prior to such redemption, the Issuer has:
  - (i) provided to the Note Trustee a legal opinion (in form and substance satisfactory to the Note Trustee) confirming that, on the proposed date of redemption, the Issuer:
    - (A) is or will be obliged to make any Tax Deduction from payments in respect of any Class of Notes; or
    - (B) has become or would become subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount retained during that accounting period, as a result of any change in, or amendment to, the application of the laws or regulations of the United Kingdom or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a ruling by a court of competent jurisdiction), which becomes effective on or after the Issue Date; and
  - (ii) delivered to the Note Trustee a certificate signed by the directors of the Issuer confirming that such obligation or limitation (as applicable) cannot be avoided by the Issuer taking reasonable measures available to it; and
  - (iii) delivered to the Note Trustee a certificate signed by the directors of the Issuer to the effect that it will have the necessary funds required under paragraph (c)(ii) below.
- (b) Notwithstanding (a) above, the Issuer will only be able to redeem the Notes in accordance with this Condition 7.9 (*Redemption for tax reasons*) if:
  - (i) the Issuer gives at least fifteen (15) and not more than thirty (30) Business Days' written notice to the Offeror and the Note Trustee; and
  - (ii) sufficient Available Funds will be available, on the proposed date of redemption;
    - (A) redeem the Rated Notes in whole at their Principal Amount Outstanding, plus any accrued but unpaid interest; and
    - (B) pay all amounts in priority thereto under the relevant Priority of Payments.



7.10 **Reductions in Principal Amount Outstanding of Class D Notes**

The Issuer shall on any Note Payment Date write down the Principal Amount Outstanding of the Class D Notes if:

- (a) a Borrower has invoked a right of set-off during the Note Calculation Period immediately preceding such Note Payment Date; and
- (b) the Offeror has elected not to reimburse the Issuer for such Set-Off Amount on the Business Day following such set-off and (where applicable) there are insufficient amounts in the Cash Collateral Account to pay the Set-Off Amount,

by an amount corresponding to the Set-Off Amount.

7.11 **No purchase by the Issuer**

The Issuer shall not purchase any of the Notes.

7.12 **Cancellation**

All Notes redeemed under this Condition 7 (*Redemption, Purchase and Cancellation*) or otherwise surrendered under Condition 19 (*Replacement of Notes*) will be cancelled upon redemption or surrender and may not be resold or re-issued.

8. **TAXATION**

All payments of, or in respect of, principal and interest on the Notes will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or charges of whatsoever nature imposed or levied by or on behalf of the Issuer's Jurisdiction, any authority therein or thereof having power to tax unless the withholding or deduction of such taxes, duties, assessments or charges by the Issuer or Principal Paying Agent (as the case may be) are required by law. In that event, the Issuer or Principal Paying Agent (as the case may be) will make the required withholding or deduction of such taxes, duties, assessments or charges for the account of the Noteholders, as the case may be, and shall not be obliged to pay any additional amounts to such Noteholders in respect of such withholding or deduction.

9. **PRESCRIPTION**

- 9.1 **Principal:** Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.
- 9.2 **Interest:** Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.

10. **SUBORDINATION**

10.1 **Subordination of the payment of interest**

- (a) Interest on the Notes shall be payable in accordance with the provisions of Condition 5 (*Interest*) and Condition 6 (*Payment*), subject to the terms of these Conditions and the terms of the Trust Deed.
- (b) If on any Note Payment Date, the Issuer has insufficient Revenue Available Funds to pay interest due and payable in respect of any Class of Notes (other than the Most Senior Class), such interest shall not be regarded as due and payable on such date and shall continue to accrue until the next Note Payment Date or such earlier date on which interest in respect of such Class of Notes becomes immediately due and payable *provided that*, for the avoidance of doubt, additional interest shall accrue on such unpaid interest amount.
- (c) If on any Note Payment Date, the Issuer has insufficient Revenue Available Funds to pay all amounts then due and payable, the Revenue Available Funds that are available on such date shall be applied in accordance with the applicable Priority of Payments and

only if and to the extent that payments or provisions of a higher order or priority have been made in full.

**10.2 Subordination of the payment of principal - the Class B Notes**

- (a) Until all the Class A1 Notes and the Class A2 Notes have been redeemed in full, principal amounts shall not be due and payable under the Class B Notes.
- (b) On or after the date on which all the Class A1 Notes have been redeemed in full and the Class A2 Notes have been redeemed in full, the Class B Notes will be redeemed in accordance with the provisions of Condition 7 (*Redemption, Purchase and Cancellation*).

**10.3 Subordination of the payment of principal - the Class C Notes**

- (a) Until all the Class A1 Notes, the Class A2 Notes and the Class B Notes have been redeemed in full, principal amounts shall not be due and payable under the Class C Notes.
- (b) On or after the date on which all the Class A1 Notes, the Class A2 Notes and the Class B Notes have been redeemed in full, the Class C Notes will be redeemed in accordance with the provisions of Condition 7 (*Redemption, Purchase and Cancellation*).

**10.4 Subordination of the payment of principal - the Class D Notes**

- (a) Until all the Class A1 Notes, the Class A2 Notes, the Class B Notes and the Class C Notes have been redeemed in full, principal amounts shall not be due and payable under the Class D Notes.
- (b) On or after the date on which all the Class A1 Notes, the Class A2 Notes, the Class B Notes and the Class C Notes have been redeemed in full, the Class D Notes will be redeemed in accordance with the provisions of Condition 7 (*Redemption, Purchase and Cancellation*).

**10.5 Subordination of the payment of principal - the Class S Notes**

Notwithstanding any other provisions of the Conditions or the Trust Deed, prior to the date on which all of the Collateral Loans have been liquidated, all of the Charged Assets have been realised and all amounts standing to the credit of the Issuer Accounts (other than the Swap Collateral Account) are to be finally distributed to the Noteholders and the other Secured Creditors, for the purpose of calculations, all references herein and therein to the Class S Notes being redeemed in full or at their Principal Amount Outstanding or to receiving any payment in accordance with the relevant Priority of Payments or otherwise shall be amended to the effect that the Class S Notes shall be redeemed in an amount equal to the lower of the funds available for such redemption purposes and the then Principal Amount Outstanding of the Class S Notes less £1, such that on aggregate £1 principal amount of the Class S Notes remains Outstanding at all times after such redemption and thereafter any amounts received which are to be applied in redemption of the Class S Notes pursuant hereto which are in excess of the Principal Amount Outstanding of the Class S Notes minus £ 1 thereof, shall constitute interest payable in respect of the Class S Notes and shall not be applied in redemption of the Principal Amount Outstanding thereof.

**11. LIMITED RECOURSE AND NON-PETITION**

**11.1 Limited Recourse**

If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable or are otherwise redeemed in full; or

- (ii) the service of an Enforcement Notice in accordance with Condition 13 (*Enforcement*); and
- (b) Realisation of the Charged Assets and application in full of any amounts available to pay amounts due and payable under the Notes and to the other Secured Creditors in accordance with the applicable Priority (or Priorities) of Payments as set out in the Trust Deed,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority (or Priorities) of Payments, to pay in full all amounts then due and payable by the Issuer under any Class of Notes or any Transaction Document then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes ranking junior to that Class of Notes) or such Transaction Document(s) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition:

"**Realisation**" shall mean, in relation to any Charged Assets, the deriving to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Assets including (without limitation) through sale or through performance by a Borrower.

#### 11.2 **Exclusion of Other Limited Recourse**

Other than Condition 11.1 (*Limited Recourse*) above, no provision contained in these Conditions or in the Transaction Documents shall limit or in any way reduce the amount of interest that would otherwise be payable by the Issuer under any Note, if and to the extent that such limitation or reduction is to any extent to be determined by reference to the results of any business or part of a business or the value of any property.

In addition, none of the Noteholders of any Class nor any of the other Secured Creditors shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenant or agreement entered into or made by the Issuer pursuant to the terms of these Conditions, the Trust Deed or any other document relating to the Notes to which the Issuer is a party or any notice or documents which it is requested to deliver hereunder or thereunder.

#### 11.3 **Non Petition**

None of the Noteholders of any Class, nor the other Secured Creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, examinership, reorganisation, arrangement, insolvency, winding-up or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the Notes of any Class, the Trust Deed or otherwise owed to the Secured Creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

### 12. **EVENTS OF DEFAULT**

#### 12.1 **Determination of an Event of Default**

Subject to Condition 12.2 (*Enforcement Notice as between each Class of Notes*) and Condition 12.3 (*Events of Default*) below, if an Event of Default occurs and is continuing the Note Trustee:

- (a) *may*, in its absolute discretion; and
- (b) *shall*, if it has been directed by an Extraordinary Resolution of:
  - (A) the Class A1 Noteholders and the Class A2 Noteholders;

- (B) if no Class A1 Notes and Class A2 Notes are outstanding, by an Extraordinary Resolution of the Class B Noteholders;
- (C) if no Class A1 Notes, Class A2 Notes and Class B Notes are outstanding, by an Extraordinary Resolution of the Class C Noteholders;
- (D) if no Class A1 Notes, Class A2 Notes, Class B Notes and Class C Notes are outstanding, by an Extraordinary Resolution of the Class D Noteholders;
- (E) if no Class A1 Notes, Class A2 Notes, Class B Notes, Class C Notes and Class D Notes are outstanding, by an Extraordinary Resolution of the Class S Noteholders,

(in each case, the "**Most Senior Class**"); and

- (c) subject, in each case, to being indemnified and/or secured to its satisfaction,

deliver a written notice (an "**Enforcement Notice**") to the Issuer declaring the Notes to be due and payable in full.

#### 12.2 **Enforcement Notice as between each Class of Notes**

- (a) If any Class A1 Notes and Class A2 Notes are outstanding, no Enforcement Notice may or shall be given by the Note Trustee to the Issuer in respect of the Class B Notes, the Class C Notes, the Class D Notes or the Class S Notes irrespective of whether an Extraordinary Resolution is passed by the Class B Noteholders, the Class C Noteholders, the Class D Noteholders or the Class S Noteholders unless the Note Trustee has been directed to issue an Enforcement Notice pursuant to an Extraordinary Resolution of the Class A1 Noteholders and Class A2 Noteholders.
- (b) If any Class B Notes are outstanding, no Enforcement Notice may or shall be given by the Note Trustee to the Issuer in respect of the Class C Notes, the Class D Notes or the Class S Notes irrespective of whether an Extraordinary Resolution is passed by the Class C Noteholders, the Class D Noteholders or the Class S Noteholders unless the Note Trustee has been directed to issue an Enforcement Notice pursuant to an Extraordinary Resolution of the Class B Noteholders.
- (c) If any Class C Notes are outstanding, no Enforcement Notice may or shall be given by the Note Trustee to the Issuer in respect of the Class D Notes or the Class S Notes irrespective of whether an Extraordinary Resolution is passed by the Class D Notes or the Class S Noteholders unless the Note Trustee has been directed to issue an Enforcement Notice pursuant to an Extraordinary Resolution of the Class C Noteholders.
- (d) If any Class D Notes are outstanding, no Enforcement Notice may or shall be given by the Note Trustee to the Issuer in respect of the Class S Notes irrespective of whether an Extraordinary Resolution is passed by the Class S Noteholders unless the Note Trustee has been directed to issue an Enforcement Notice pursuant to an Extraordinary Resolution of the Class D Noteholders.

#### 12.3 **Events of Default**

The occurrence of any of the following events shall be an "**Event of Default**":

- (a) a default by the Issuer for a period of fifteen (15) calendar days in the payment of any amount that is due and payable by it in respect of the Most Senior Class of Notes; or
- (b) the Issuer fails to perform any of its other obligations binding on it under the Notes, the Trust Deed or any other Transaction Document, and such failure:
  - (i) is in the opinion of the Note Trustee, incapable of remedy; or

- (ii) being a failure, which is in the opinion of the Note Trustee, capable of remedy, but which remains unremedied for a period of thirty (30) calendar days after written notice by the Note Trustee to the Issuer requiring the same to be remedied; or
- (c) any representation or warranty of the Issuer made in the Trust Deed is incorrect in any material respect when made, and if such breach is capable of correction, continuance of such breach of representation or warranty continues for a period of thirty (30) calendar days after notice thereof is given to the Issuer by the Note Trustee; or
- (d) an Insolvency Event occurs in relation to the Issuer; or
- (e) it is or will become unlawful for the Issuer to perform or comply with any of its material obligations under or in respect of the Notes or the Transaction Documents.

#### 12.4 **Acceleration**

Upon delivery of an Enforcement Notice, the Notes shall immediately become due and repayable without further action or formality at their Principal Amount Outstanding together with accrued interest up to (but excluding) the date on which all principal, interest and other amounts (if any) are paid in full.

#### 13. **ENFORCEMENT**

- (a) If at any time an Event of Default occurs and an Enforcement Notice has been delivered pursuant to Condition 12 (*Events of Default*), the Note Trustee may, in its absolute discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce its rights under and in accordance with the Trust Deed and other Transaction Documents (including, without limitation, a demand for payment under such agreements or an enforcement of the Security, leading to a liquidation of the Collateral Portfolio), but it shall not be bound to take such proceedings unless the Note Trustee:
  - (i) receives such directions pursuant to an Extraordinary Resolution of:
    - (A) the Class A1 Noteholders and the Class A2 Noteholders; or
    - (B) if all amounts due in respect of the Class A1 Notes and the Class A2 Notes have been fully paid, the Class B Noteholders; or
    - (C) if all amounts due in respect of the Class A1 Notes, the Class A2 Notes and the Class B Notes have been fully paid, the Class C Noteholders; or
    - (D) if all amounts due in respect of the Class A1 Notes, the Class A2 Notes, the Class B Notes and the Class C Notes have been fully paid, the Class D Noteholders;
    - (E) if all amounts due in respect of the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes and the Class D Noteholders have been fully paid, the Class S Noteholders; and
  - (ii) the Note Trustee is indemnified and/or secured to its satisfaction for any action it may take under this Condition.
- (b) No Noteholder shall be entitled to take any proceedings or other action directly against the Issuer.

14. **THE NOTE TRUSTEE**

14.1 **Rights, limitation of liability and indemnity**

The Trust Deed contains provisions:

- (a) giving various powers, authorities and discretions to the Note Trustee in addition to those contained elsewhere in these Conditions;
- (b) specifying various matters in respect of which the Note Trustee is to have:
  - (i) no duty or responsibility to make any investigation; and
  - (ii) no liability or responsibility to the Noteholders or any of the other Secured Creditors in the absence of wilful default and gross negligence; and
- (c) entitling the Note Trustee to indemnification or security or providing that it is not obliged to take any action at the direction of any person unless it has been indemnified and/or secured otherwise to its satisfaction.

14.2 **Noteholder interests as a class, no indemnity to Noteholders**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 14 (*The Note Trustee*)) the Note Trustee shall have regard to the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class S Noteholders, each as a Class, and shall not have regard to the consequences of such exercise for individual Noteholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

14.3 **Noteholder interests**

The Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class S Noteholders, each as a Class, as regards all powers, trust, authorities, duties and discretions of the Note Trustee under the Trust Deed and the other Transaction Documents, except where expressly provided otherwise.

14.4 **Conflict between Noteholder interests**

- (a) Subject to Condition 14.3 (*Noteholder interests*) above, if in relation to the exercise or performance of any of trusts, powers, authorities, duties, discretions and obligations of the Note Trustee described in Condition 14.3 (*Noteholder interests*), the Note Trustee is of the opinion that there is or may be a conflict:
  - (i) between the interests of:
    - (A) the Class A1 Noteholders and the Class A2 Noteholders; and
    - (B) the other Noteholders,the Note Trustee shall have regard only to the interests of the Class A1 Noteholders and the Class A2 Noteholders;
  - (ii) if there are no Class A1 Notes outstanding and no Class A2 Notes outstanding, between the interests of:
    - (A) the Class B Noteholders; and
    - (B) the other Noteholders,

the Note Trustee shall have regard only to the interests of the Class B Noteholders;

(iii) if there are no Class A1 Notes outstanding, no Class A2 Notes outstanding and no Class B Notes outstanding, between the interests of:

(A) the Class C Noteholders; and

(B) the other Noteholders,

the Note Trustee shall have regard only to the interests of the Class C Noteholders;

(iv) if there are no Class A1 Notes outstanding, no Class A2 Notes outstanding, no Class B Notes outstanding and no Class C Notes outstanding, between the interests of:

(A) the Class D Noteholders; and

(B) the other Noteholders,

the Note Trustee shall have regard only to the interests of the Class D Noteholders; and

(v) if there are no Class A1 Notes outstanding, no Class A2 Notes outstanding, no Class B Notes outstanding, no Class C Notes outstanding and no Class D Noteholders outstanding, the Note Trustee shall have regard only to the interests of the Class S Noteholders.

(b) The Note Trustee shall be entitled to assume without enquiry that there is no conflict between the interests of the holders of the Class A1 Notes and the Class A2 Notes.

#### 14.5 **Interests of Secured Creditors**

For so long as any of the Notes remain Outstanding, in the exercise of its rights, authorities and discretions under the Transaction Documents, the Note Trustee is not required to have regard to the interests of the other Secured Creditors.

Following the date on which the Notes have been redeemed in full, the Note Trustee shall have regard to the interests of the Secured Creditors, *provided that*, if there is a conflict of interest between such Secured Creditors, the applicable Priority of Payments shall determine which interests shall prevail.

#### 15. **SUBSTITUTION OF ISSUER**

15.1 **Substitution of Issuer:** The Note Trustee may, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require (at the direction of each Class of Noteholders (each such direction to be given by Extraordinary Resolution) but without the consent of any other Secured Creditor, subject to such further conditions as are specified in the Trust Deed (including the Rating Agency Confirmation), in certain situations including without limitation in the event that the Issuer has or will on the occasion of the next payment due in respect of the Notes of any Class become obliged by law to withhold or account for tax so that it would be unable to make payment of the full amount then due, agree with the Issuer to the substitution of a substitute special purpose entity in a jurisdiction acceptable to the Rating Agencies in place of the Issuer (or of any previous substituted company under the Trust Deed) as the principal debtor in respect of the Trust Deed, the Notes, the Transaction Documents and the Secured Amounts and of any other company.

15.2 **Notice of Substitution of Issuer:** Not later than fourteen calendar days after any substitution of the Issuer in accordance with this Condition 15, the substitute entity shall cause notice of such substitution to be given to the Noteholders in accordance with Condition 16 (*Notices*), the Rating Agencies and the other Secured Creditors under the other Transaction Documents.

15.3 **Change of Law:** In the case of a substitution pursuant to this Condition 15, the Note Trustee may agree to a change of the law governing the Notes and/or any of the Transaction Documents *provided that* such change and the proposed law is at the direction of all Classes of Noteholders (each Class acting by Extraordinary Resolution) but without the consent of any other Secured Creditor.

15.4 **No indemnity:** No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any Tax consequence of any such substitution upon individual Noteholders.

## 16. NOTICES

### 16.1 Valid notices

Any notice to Noteholders shall be validly given if such notice is:

- (a) prior to the issue of any Individual Note Certificates and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg upon delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders; or
- (b) following the issue of Individual Note Certificates in such English language newspaper or newspapers as may be previously approved in writing by the Note Trustee and as has been notified to the Noteholders in such manner as the Note Trustee shall require,

and, for so long as the Rated Notes are listed on the Irish Stock Exchange, in respect of notice to Class A Noteholders, Class B Noteholders and/or Class C Noteholders, in accordance with the relevant requirements thereof.

### 16.2 Date of publication

Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).

### 16.3 Other Methods

- (a) The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a Class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Irish Stock Exchange on which the Rated Notes are then listed and *provided that* notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.
- (b) In addition to the foregoing (but not instead of), the Issuer may publish any such notice via the Bloomberg service (or any other similar information service).

## 17. MEETINGS OF NOTEHOLDERS

### 17.1 Convening

The Trust Deed contains provisions governing the procedures, constitution and validity of Meetings, including (i) provisions for written resolutions, (ii) provisions for convening separate Meetings of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class S Noteholders to consider matters affecting their interests, including the modification of the provisions of these Conditions, the Trust Deed or the other Transaction Documents and (iii) the making of determinations by extraordinary resolution of the Noteholder, or Noteholders of a Class (an "**Extraordinary Resolution**").



## 17.2 **Request for Meeting**

A Meeting of Noteholders of a particular class may be convened by the Note Trustee or the Issuer at any time and must be convened by the Note Trustee (subject to its being indemnified and/or secured to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes then Outstanding of that Class.

## 17.3 **Separate and combined Meetings**

The Trust Deed provides that:

- (a) an Extraordinary Resolution which in the opinion of the Note Trustee affects the Notes of only one Class shall be transacted at a separate Meeting of the Noteholders of that Class;
- (b) except in relation to Class A1 and Class A2 Noteholders, an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of more than one Class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one Class of Notes and the holders of another Class of Notes shall be transacted either at separate Meetings of the Noteholders of each such Class or at a combined Meeting of the Noteholders of all such Classes of Notes as the Note Trustee shall determine in its absolute discretion;
- (c) except in relation to Class A1 and Class A2 Noteholders, an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of more than one Class and gives rise to any actual or potential conflict of interest between the Noteholders of one Class of Notes and the Noteholders of any other Class of Notes shall be transacted at separate Meetings of the Noteholders of each such Class; and
- (d) subject to Condition 17.3(a), an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of both the Class A1 Notes and the Class A2 Notes, irrespective of any actual or potential conflict of interest between the Noteholders of the Class A1 Notes and the Class A2 Notes, shall be transacted at a combined Meeting of the Noteholders of the Class A1 Notes and Class A2 Notes.

## 17.4 **Quorum and passing of Extraordinary Resolutions**

The quorum at any Meeting convened to vote on:

- (a) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a Meeting of a particular class or classes of the Notes will be two (2) or more persons holding or representing a majority of the Principal Amount Outstanding of the Notes then Outstanding in that class or those classes or, at any adjourned Meeting, two (2) or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the Notes then Outstanding so held or represented in such class or classes; and
- (b) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be two (2) or more persons holding or representing in the aggregate 75 per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes or, at any adjourned meeting, two (2) or more persons holding or representing not less than in the aggregate  $33\frac{1}{3}$  per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes.

In respect of Conditions 17.4 (a) and (b) above, while all the Notes then Outstanding of any Class are represented by a Global Note Certificate or, in respect of the Individual Note Certificate representing the Class S Notes, a single Voter appointed in relation thereto or being the holder of the Notes thereby represented shall be deemed to be two votes for the purposes of forming a quorum.

17.5 **Extraordinary Resolutions and relationship between each Class of Notes**

17.5.1 No Extraordinary Resolution involving a Reserved Matter that is passed by the holders of one Class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Classes of Notes then outstanding.

17.5.2

- (a) An Extraordinary Resolution of the Class A1 Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A2 Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A2 Noteholders (to the extent that there are Outstanding Class A2 Notes).
- (b) An Extraordinary Resolution of the Class A2 Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A1 Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A1 Noteholders (to the extent that there are Outstanding Class A1 Notes).
- (c) An Extraordinary Resolution of the Class B Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A1 Noteholders and the Class A2 Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A1 Noteholders and the Class A2 Noteholders (to the extent that there are Outstanding Class A1 Notes and Class A2 Notes).
- (d) An Extraordinary Resolution of the Class C Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A1 Noteholders, the Class A2 Noteholders and the Class B Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A1 Noteholders, the Class A2 Noteholders and the Class B Noteholders (to the extent that there are Outstanding Class A1 Notes, Class A2 Notes and Class B Notes).
- (e) An Extraordinary Resolution of the Class D Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders and the Class C Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders and the Class C Noteholders (to the extent that

there are Outstanding Class A1 Notes, Class A2 Notes, Class B Notes and Class C Notes).

- (f) An Extraordinary Resolution of the Class S Noteholders shall only be effective if:
  - (i) the Note Trustee is of the opinion that it will not be materially prejudicial to the interests of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders; or
  - (ii) if such Extraordinary Resolution is sanctioned by an Extraordinary Resolution of the Class A1 Noteholders, the Class A2 Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders (to the extent that there are Outstanding Class A1 Notes, Class A2 Notes, Class B Notes, Class C Notes and Class D Notes).

#### 17.6 **Exercise of powers of Class A Noteholders**

Subject to Condition 17.5.1, the Trust Deed imposes no limitations as set out in Condition 17.5 (*Extraordinary Resolutions and relationship between each Class of Notes*) on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class S Noteholders, irrespective of the effect on their interests.

#### 17.7 **Resolutions binding between Noteholders of each Class**

All resolutions duly passed at a Meeting of:

- (a) the Class A1 Noteholders;
- (b) the Class A2 Noteholders;
- (c) the Class B Noteholders;
- (d) the Class C Noteholders;
- (e) the Class D Noteholders; or
- (f) the Class S Noteholders,

shall be binding on all Noteholders of the relevant Class (whether or not they were present at the Meeting at which such resolution was passed).

In addition, a resolution in writing signed by or on behalf of all Noteholders of a particular class of Notes who for the time being are entitled to receive notice of a Meeting of such Class will take effect as if it were an Extraordinary Resolution of the holders of such Class of Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders of the relevant Class of Notes (as the case may be). For the avoidance of doubt convening requirements as set out above are not applicable when the written resolution is signed by or on behalf of all Noteholders of the relevant Class of Notes.

### 18. **MODIFICATION AND WAIVER OF BREACH**

#### 18.1 **Modification**

- (a) The Trust Deed provides that if a Rating Agency's rating criteria applicable to a Swap Agreement have been updated, the Note Trustee shall consent to an amendment to such Swap Agreement implementing the updated rating criteria (even if such amendments are, or may be, materially prejudicial to the interests of any of the Noteholders), provided certain conditions are met, including provision of a Rating Agency Confirmation. Any such amendment shall be binding on the Noteholders. The Note Trustee shall not be

responsible or liable in damages or otherwise to any person for any loss incurred by reason of the Note Trustee consenting to such amendment.

(b) The Note Trustee may agree, at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, with the Issuer and any other relevant parties in making any modification (other than, in the case of paragraph (i) below, in respect of any Reserved Matters) to any of the provisions of the Notes, the Trust Deed or any of the other Transaction Documents if, in the opinion of the Note Trustee:

(i) it is not materially prejudicial to the interests of the Noteholders of any Class; or

(ii) is to correct a manifest error, or is of a formal, minor or technical nature,

*provided that* in each case the Issuer has notified the Rating Agencies of such modification.

## 18.2 **Breach**

The Note Trustee may, without the consent of the Noteholders or any other Secured Creditors and if in its opinion it will not be materially prejudicial to the interests of the Noteholders of any Class:

(a) authorise or waive, on any terms and subject to any conditions which it considers appropriate, any proposed breach or breach of any Transaction Document; and

(b) determine that an actual or potential Event of Default or actual or potential breach of the Conditions shall not, or shall not subject to specified conditions, be treated as such,

*provided that*, in each case the Issuer has notified the Rating Agencies of such determination.

## 18.3 **Restriction on power to waive**

The Note Trustee shall not exercise any powers conferred on it by Condition 18.2 (*Breach*) in contravention of any express directions by an Extraordinary Resolution of the Most Senior Class of Notes Outstanding or of a request or direction made in writing by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes Outstanding, but so that no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating (i) to a Reserved Matter unless the holders of each Class of Notes then Outstanding have, by Extraordinary Resolution so authorised its exercise.

## 18.4 **Binding nature**

Any modification, waiver, authorisation or determination made by the Note Trustee pursuant to this Condition 18 (*Modification and Waiver of Breach*) shall be binding on the Noteholders and the other Secured Creditors.

## 18.5 **Notification to Noteholders**

Unless the Note Trustee requires otherwise the Issuer shall cause any such modification, waiver, authorisation or determination to be notified to the Noteholders and the other Secured Creditors in accordance with Condition 16 (*Notices*) and the Transaction Documents, as soon as is practicable thereafter.

## 19. **REPLACEMENT OF NOTES**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

20. **GOVERNING LAW AND JURISDICTION**

20.1 **Governing law**

The Trust Deed and Notes and all non-contractual obligations arising from or connected with them are governed by, and shall be construed in accordance with, English Law.

20.2 **Jurisdiction**

The courts of England are to have exclusive jurisdiction to settle any dispute arising from or connected with the Notes and the Transaction Documents governed by English law (including a dispute relating to non-contractual obligations or disputes regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents governed by English law may be brought in such courts. The Issuer has in each of the Transaction Documents governed by English law irrevocably submitted to the jurisdiction of such courts.

## SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Rated Notes will be represented on issue by beneficial interests in one or more permanent global certificates of such Class (each, a "**Global Note**") in fully registered form, without interest coupons or principal receipts, which will be deposited on or about the Issue Date with, and registered in the name of a nominee of, in the case of the Class A2 Notes, a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking *société anonyme* ("**Clearstream, Luxembourg**") or, in the case of the Class A1 Notes, the Class B Notes and the Class C Notes, a common depository (the "**Common Depository**") for Euroclear and Clearstream, Luxembourg on or before the Issue Date. The Common Safekeeper will hold the Global Notes relating to the Class A2 Notes in custody for Euroclear and Clearstream Luxembourg. Beneficial interests in a Global Certificate may only be held through, and transfers thereof will only be effected through, records maintained by Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Clearance Procedures*".

The nominal amount of Rated Notes represented by the Global Notes shall be the aggregate amount from time to time entered in the records of Clearstream, Luxembourg and/or Euroclear. The records of Clearstream, Luxembourg and/or Euroclear (the records that each of Clearstream, Luxembourg and/or Euroclear holds for its customers which reflect the amount of such customer's interest in the Rated Notes) shall be conclusive evidence of the nominal amount of Rated Notes represented by the Global Notes and, for these purposes, a statement issued by Clearstream, Luxembourg and/or Euroclear (which statement shall be made available to the registered holder upon request) stating the nominal amount of Rated Notes represented by the Global Notes at any time shall be conclusive evidence of the records of Clearstream, Luxembourg and/or Euroclear at that time.

### Issuance of Individual Note Certificates

The Global Note will become exchangeable in whole, but not in part, for individual note certificates ("**Individual Note Certificates**") if (a) both Euroclear and Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of legal holidays) or announces an intention permanently to cease business and do so cease business and no alternative clearing system satisfactory to the Note Trustee is available; (b) any of the circumstances described in Condition 12 (*Events of Default*) occurs or; (c) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Issue Date, the Issuer or any paying agent is or will be required to make any deduction or withholding for or on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

Whenever the Global Note is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the relevant Global Note within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Note Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, each Global Note will contain provisions which modify the Conditions of the Notes as they apply to the Notes evidenced by a Global Note Certificate. The following is a summary of certain of those provisions:

- (i) *Notices*: Notwithstanding Condition 16 (*Notices*), while any of the Notes are represented by a Global Note and such Global Note is deposited with the Common Safekeeper or the Common Depository, as the case may be, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with the Condition 16 (*Notices*) on the date

of delivery to Euroclear and Clearstream, Luxembourg. In addition to the foregoing (but not instead of), the Issuer may publish any such notice via the Bloomberg service (or any other similar information service).

- (ii) *Note Trustee's Powers:* In considering the interests of Noteholders while any of the Notes are represented by a Global Note and the Global Note is deposited with the Common Safekeeper or the Common Depositary, as the case may be, the Note Trustee may have regard to any information provided to it by Euroclear or Clearstream, Luxembourg.
- (iii) *Meetings:* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirement of, or the right to demand a poll at, a meeting of holders of each Class of the Notes, as the case may be, and, at any such meeting, as having one vote in respect of each £1,000 principal amount of Notes or €1,000 principal amount of Notes in respect of the Class A2 Notes for which the Global Note may be exchanged.

## BOOK-ENTRY CLEARANCE PROCEDURES

The information set out below has been obtained from sources that the Issuer believes to be reliable, but prospective investors are advised to make their own enquiries as to such procedures. In particular, such information is subject to any change in or interpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Note Trustee, the initial purchaser of the Rated Notes or any Agent party to the Agency Agreement (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 the Clearing Systems 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 below.

### **Euroclear and Clearstream, Luxembourg**

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Rated Notes and cross-market transfers of the Rated Notes associated with secondary market trading. (See "*Settlement and Transfer of Notes*" below).

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

### ***Book-Entry Ownership***

Each Global Certificate will have an ISIN and a Common Code and will be registered in the name of, and deposited with, in the case of the Class A2 Notes, a Common Safekeeper on behalf of, Euroclear and Clearstream, Luxembourg and in the case of the Class A1 Notes, the Class B Notes and the Class C Notes, a Common Depositary on behalf of, Euroclear and Clearstream, Luxembourg.

### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg, as the holder of a Note represented by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes represented by a Global Certificate, the Common Safekeeper or the Common Depositary, as the case may be, by whom such Rated Notes are held, will immediately credit the relevant participants' or accountholders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note Certificate held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices.



Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Rated Notes for so long as the Rated Notes are represented by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Note Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

***Settlement and Transfer of Rated Notes***

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in any Global Note Certificate held within a Clearing System is exchanged for Individual Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

***Trading between Euroclear and/or Clearstream, Luxembourg Participants:***

Secondary market sales of book-entry interests in the Rated Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Rated Notes held 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.

***Pre-issue Trades Settlement:***

It is expected that delivery of Rated Notes will be made against payment therefor on the Issue Date thereof, which could be more than three Business Days following the date of pricing. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Rated Notes who wish to trade Notes between the date of pricing and the relevant Issue Date should consult their own adviser.

## UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Rated Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("**HMRC**"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Rated Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Rated Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Holders of the Rated Notes who are in any doubt as to their tax position should consult their professional advisers. Holders of the Rated Notes who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Rated Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Rated Notes. In particular, Holders of the Rated Notes should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Rated Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

### **Interest on the Rated Notes**

#### **Payment of Interest on the Rated Notes**

Payments of interest on the Rated Notes may be made without deduction or withholding for or on account of United Kingdom income tax *provided that* the Rated Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 ("**ITA 2007**"). Securities will be regarded as "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The Irish Stock Exchange is a recognised stock exchange. The Issuer's understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the main market of that stock exchange may be regarded as "listed on a recognised stock exchange" for these purposes.

In all cases falling outside the exemption described above, interest on the Rated Notes may only be paid without withholding or deduction for or on account of United Kingdom income tax if such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption applies. In all other cases, interest on the Rated Notes will be paid subject to withholding or deduction for and on account of United Kingdom income tax at the basic rate (currently 20 per cent.).

#### **Provision of Information**

Holders of Rated Notes should note that where any interest on Rated Notes 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 the Rated Notes (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 HMRC details of the payment and certain details relating to the holders of Rated Notes (including the name and address of the holder of the Rated Notes). 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 such holder of the Rated Notes is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Rated Notes which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970 (although in this regard HMRC published guidance for the

year 2011/2012 indicates that HMRC will not exercise its power to obtain information in relation to such payments in that year).

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

### **EU Savings Directive**

Under the EU Savings Directive, 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 limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg will instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35% (unless during that transitional period they elect to provide information in accordance with the Directive). 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. Belgium has replaced the withholding tax system with a regime of exchange of information to the Member State of residence as from 1 January 2010.

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

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

### **Other rules relating to United Kingdom Withholding Tax**

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 15 (*Substitution of Issuer*) and does not consider the tax consequences of any such substitution.

## SUBSCRIPTION AND SALE

### General

The Issuer has undertaken to indemnify and hold harmless the Lead Manager in respect of any liability incurred in the context of the arranging of the Notes.

In accordance with the terms of the Subscription Agreement, the Issuer has agreed to issue the Notes and the Lead Manager has agreed (subject to certain conditions) to subscribe and pay for the Notes on the Issue Date.

### *Public Offer Selling Restrictions Under the Prospectus Directive*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Lead Manager has represented to and agreed with the Issuer 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 Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Relevant Member State 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, provided that no such offer of Notes shall require the Issuer or any Arranger to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes" to the public in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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.

### *Selling Restrictions Addressing Additional United Kingdom Securities Laws*

The Lead Manager has represented to and agreed with the Issuer, amongst other things, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

### *The United States of America*

The Lead Manager has represented to and agreed with, *inter alios*, the Issuer that:

the Notes, have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold directly or indirectly within the United States or to or for the account or benefit of U.S. persons (as defined in the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the Investment Company Act. The Lead Manager has represented and agreed that it has offered or sold, and will offer or sell, any Notes constituting part of its allotment (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, only in accordance with Rule 903 of Regulation S under the Securities Act ("**Regulation S**"). Accordingly, the Lead Manager has represented and agreed that neither it, its affiliates nor any persons

acting on its behalf have engaged or will engage in any directed selling efforts with respect to the Notes and it has compiled and will comply with the offering restrictions requirement of Regulation S. The Lead Manager has agreed, that, at or prior to confirmation of sales of any Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the 40 day distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the Securities Act and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except in either case in accordance with Regulation S. Terms used above have the meaning given to them by Regulation S.

Terms used in this paragraph (a) have the meanings given to them by Regulation S.

## **Ireland**

The Lead Manager has represented, warranted and agreed with the Issuer, amongst other things, that:

- (a) It has not offered, sold, placed or underwritten and will not offer, sell, place or underwrite, the issue of any Notes to the public within Ireland except in circumstances which do not require the prior publication of a prospectus pursuant to Article 3(2) of Directive 2003/71/EC;
- (b) to the extent applicable, it has complied with and will comply with all applicable provisions of the Irish Companies Acts 1963-2009;
- (c) to the extent applicable, it will not underwrite the issue of, place, sell, offer or otherwise act in Ireland in respect of the Notes, otherwise than in compliance with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007) (as amended), and it will conduct itself in accordance with any codes or rules of conduct and any conditions and requirements, or any other enactment, imposed or approved by Central Bank of Ireland with respect to anything done by them in relation to the Notes;
- (d) to the extent applicable, it will not underwrite the issue of, sell, place, offer or otherwise act in Ireland in respect of the Notes, otherwise than in compliance with the provisions of the Market Abuse Directive (2003/6/EC) Regulations 2005 and any rules issued by the Central Bank of Ireland pursuant thereto; and
- (e) it will not offer, sell, place or underwrite the issue of any Notes in Ireland otherwise than in compliance with the provisions of the Irish Central Bank Acts 1924 – 2010 (as amended) and any codes of conduct rules made under Section 117 (1) thereof.

## **Investor Compliance**

Persons into whose hands this Prospectus comes are required by the Issuer and the Arranger to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## **Additional representations and restrictions applicable to the Class S Note**

Any holder of the Class S Note may make a transfer of the whole of its Class S Note or create or grant any encumbrance in respect of such Class S Note if all of the following conditions are satisfied:

- (a) the Class S Noteholder making such transfer or subjecting the Class S Note to such encumbrance shall be solely responsible for any costs, expenses or taxes which are incurred by the Issuer, the Class S Noteholder or any other person in relation to such transfer or encumbrance; and
- (b) the transferee is a Qualifying Noteholder.

The Principal Paying Agent shall not make interest payments in relation to any Class S Note, to the holder of such Class S Note and such holder, shall not be entitled to receive such relevant interest amount

on any Note Payment Date free of any relevant withholding or deduction for or on account of United Kingdom income tax, unless and until it has provided (i) to the Principal Paying Agent, details of the account into which such payments should be made; and (ii) to the Issuer, a tax certificate substantially in the form set out in Schedule 3 (Form of Tax Certificate) of the Agency Agreement (the "**Tax Certificate**") and the Issuer (or the Cash Administrator on behalf of the Issuer in accordance with the terms of the Administration Agreement) has confirmed in writing to the Principal Paying Agent and the Registrar that such interest amount in respect of the Class S Note can be paid free of any relevant withholding or deduction for or on account of United Kingdom income tax. The Registrar shall upon receipt of such confirmation make a note of such confirmation in the Register.

*Because of the foregoing restrictions, purchasers of the Class S Note are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

For the purposes of this Prospectus, "**Person**" includes any person, individual, firm, company, corporation, government, state or agency of a state or any undertaking (within the meaning of section 1161(1) of the Companies Act 2006) or other association (whether or not having separate legal personality) or any two or more of the foregoing.

## GENERAL INFORMATION

- (1) Application has been made to the Irish Stock Exchange for the Rated Notes to be admitted to the Official List and trading on its Main Securities Market in accordance with the Prospectus Directive.
- (2) The creation and issue of the Notes has been authorised by a resolution of the board of directors of the Issuer dated 21 July 2011.
- (3) The Rated Notes have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg under the following Common Codes and have been assigned the following ISINs and ratings by the Rating Agencies:

	<b>Common Code</b>	<b>ISIN</b>	<b>Rating (Moody's/Fitch)</b>	<b>Credit Enhancement</b>
Class A1 Notes	060838259	XS0608382593	Aaa(sf)/AAA(sf)	Class B Notes, Class C Notes, Class D Notes, Class S Notes
Class A2 Notes	060838445	XS0608384458	Aaa(sf)/AAA(sf)	Class B Notes, Class C Notes, Class D Notes, Class S Notes
Class B Notes	060838313	XS0608383138	Aa2(sf)/ N/A	Class C Notes, Class D Notes, Class S Notes
Class C Notes	060838330	XS0608383302	Baa2(sf)/ N/A	Class D Notes, Class S Notes
Class D Notes	N/A	N/A	Unrated	Class S Notes
Class S Notes	N/A	N/A	Unrated	

- (4) The Issuer is not involved in any governmental, legal, judicial or arbitration proceedings which may have, or have had during the twelve (12) months preceding the date of this Prospectus, a significant effect on the respective financial position or profitability of the Issuer, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.
- (5) Since the date of incorporation of the Issuer there has been (i) no significant change in the financial or trading position of the Issuer and (ii) no material adverse change in the financial position or prospects of the Issuer.
- (6) The Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages, charges or given any guarantees.
- (7) Copies of the latest audited annual financial statement of the Issuer will be available free of charge at the Issuer's registered office and the Specified Office of the Principal Paying Agent during normal business hours for as long as any of the Notes are Outstanding. The Issuer will not publish interim financial statements. Copies of the Prospectus and the following documents will be available for inspection in electronic form at the Specified Office of the Principal Paying Agent during normal business hours for as long as any of the Rated Notes are Outstanding: (a) the Memorandum and Articles of Association of the Issuer; and (b) the Trust Deed, the Agency Agreement and the Corporate Services Agreement.
- (8) The Issuer will provide post issuance transaction information in the form of Investor Reports produced by the Cash Administrator on behalf of the Issuer. The Investor Report will contain information as set out in the Administration Agreement, including but not limited to information relating to the Notes and the Charged Assets. The Investor Reports will be accessible to Noteholders via the following websites: [www.SF.citidirect.com](http://www.SF.citidirect.com) and [http://www.lloydsbankinggroup.com/investors/debt\\_investors/securitisation\\_terms.asp](http://www.lloydsbankinggroup.com/investors/debt_investors/securitisation_terms.asp), subject to the terms set out thereon.

- (9) The Prospectus has been approved by the Central Bank as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirement imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Rated Notes to be admitted to listing and trading on its regulated market. The Listing Agent is acting solely in its capacity as listing agent for the Issuer in connection with the listing of the Rated Notes and is not itself seeking admission of the Rated Notes to the official list of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.
- (10) The language of the prospectus is English.
- (11) Any website referred to in this document does not form part of the Prospectus.
- (12) The Issuer will make available certain further information including in relation to each Collateral Loan, which will be accessible via the following website, on the terms set out thereon: <https://services.intralinks.com/login/> (access details available from [LBGSandownGold2011-1@lloydsbanking.com](mailto:LBGSandownGold2011-1@lloydsbanking.com)).



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