



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

**£30 billion**  
**Global Covered Bond Programme**

**unconditionally and irrevocably guaranteed as to payments of interest and principal by**  
**LLOYDS TSB SECURED FINANCE LLP**  
(a limited liability partnership incorporated in England and Wales registered number OC341740)

Under this £30 billion global covered bond programme (the **Programme**), Lloyds TSB Bank plc (the **Issuer**) may from time to time issue bonds (the **Covered Bonds**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

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

Covered Bonds may be issued in bearer or registered form. The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed £30 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

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

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

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

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

The Issuer may apply to the FSA for the Issuer to be admitted to the register of issuers under the Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended by the Regulated Covered Bond (Amendment) Regulations (SI 2008/1714) (the **RCB Regulations**). The Issuer does not, however, currently intend to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations such that, if and until the Issuer elects to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds and such application is successful, any Covered Bonds issued under the Programme will not be regulated covered bonds irrespective of whether or not the Issuer is admitted to the register of issuers under the RCB Regulations.

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

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

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

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

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

**Arranger for the Programme**

**Lloyds TSB Corporate Markets**

**Dealer**

**Lloyds TSB Corporate Markets**

The date of this Prospectus is 17 December 2008.

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

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

The Issuer does not intend to apply to the FSA for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations and as at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bond issued under the Programme is so registered or regulated.

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

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

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

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

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

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

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer and the LLP is correct at any

time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The relevant Dealer, the Arranger, the Bond Trustee and the Security Trustee expressly do not undertake to review the financial condition or affairs of the Issuer, the Seller or the LLP during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

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

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

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

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

None of the relevant Dealer, the Arranger, the Issuer, the Seller, the LLP, the Security Trustee or the Bond Trustee makes any representation to any investor in the Covered Bonds regarding the legality of its investment

under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

## U.S. INFORMATION

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

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

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

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

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

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

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

## NOTICE TO NEW HAMPSHIRE RESIDENTS

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

## AVAILABLE INFORMATION

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

## SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

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

## FORWARD-LOOKING STATEMENTS

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

Investors should specifically consider all of the information set out in, and incorporated by reference into, this document before making any investment decision. In particular, investors should consider the risks, uncertainties and other factors as set out in the section *Risk Factors* of this document, which include general risks relating to the Lloyds TSB Group and, if the Acquisition becomes effective, the Enlarged Group, risks relating to the Acquisition, risks relating to the Placing and Open Offer and to investment in Lloyds TSB Shares.

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

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

## PRESENTATION OF FINANCIAL INFORMATION

The financial information relating to the Issuer and Lloyds TSB Group plc, as incorporated by reference into this Prospectus, in respect of the financial years ended 31 December 2006 and/or 31 December 2007 has been

prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union (**EU**).

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

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

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## PRINCIPAL CHARACTERISTICS OF THE PROGRAMME

<b>Issuer:</b>	Lloyds TSB Bank plc
<b>Guarantor:</b>	Lloyds TSB Secured Finance LLP
<b>Regulated Covered Bonds:</b>	The Issuer may apply for the Issuer to be admitted to the register of issuers under the RCB Regulations, but does not currently intend to apply for the Programme or any Series of Covered Bonds issued under the Programme to be registered under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme is so registered or regulated
<b>Nature of eligible property:</b>	Residential mortgage loans, Substitution Assets up to the prescribed limit and Authorised Investments
<b>Location of eligible residential property underlying Loans:</b>	England, Wales or Scotland
<b>Maximum Current Balance to Indexed Valuation ratio given credit under the Asset Coverage Test:</b>	75 per cent.
<b>Maximum Asset Percentage:</b>	85 per cent.
<b>Extended Maturities:</b>	Available
<b>Hard Bullet Option:</b>	Available
<b>Asset Monitor:</b>	PricewaterhouseCoopers LLP
<b>Asset Segregation:</b>	Yes
<b>Namenschuldverschreibungen option:</b>	No

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2006, together with the audit report thereon, as set out on pages 6 to 73 of the Issuer's Annual Report and Accounts 2006;
- (ii) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2007, together with the audit report thereon, as set out on pages 8 to 100 of the Issuer's Annual Report and Accounts 2007;
- (iii) the audited consolidated annual financial statements of Lloyds TSB Group plc for the financial year ended 31 December 2007 as set out on pages 76 to 147 of Lloyds TSB Group plc's Annual Report and Accounts 2007 together with the audit report thereon, including the information regarding Risk Management set out on pages 36 to 56, which is audited except for such information set out on page 51;
- (iv) pages 25 to (and including) 40 of the Issuer's Interim Management Report for the half-year to 30 June 2008, published on 30 July 2008;
- (v) pages 30 to (and including) 45 of Lloyds TSB Group plc's Interim Results News Release (the **2008 Company Interim Results**) for the half-year to 30 June 2008, published on 30 July 2008;
- (vi) the following items from an announcement (the **Acquisition Announcement**) published by Lloyds TSB Group plc on 18 September 2008 regarding the recommended acquisition of HBOS plc by Lloyds TSB Group plc to be implemented by means of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006:
  - (A) From the section entitled "*Introduction*" to (and including) the section entitled "*General*" save that the following should be excluded:
    - (x) the second paragraph of the section titled "*Introduction*";
    - (y) the first sentence of the fifth paragraph, the sixth paragraph, the second sentence of the seventh paragraph and the eighth paragraph of the section entitled "*Background to and reasons for the Acquisition*"; and
    - (z) the first, tenth, twelfth and thirteenth paragraphs of the section entitled "*Synergies, financial effects and pro forma financials*";
  - (B) Appendix I entitled "*Conditions to the Implementation of the Scheme and the Acquisition*";
  - (C) Appendix II entitled "*Sources and Bases of Information*";
  - (D) Appendix III entitled "*Definitions*" only to the extent that such defined terms are used in the documents or information incorporated pursuant to (A) through (C) above;
- (vii) the announcement (the **Acquisition and Capital Announcement**) published by Lloyds TSB Group plc on 13 October 2008 regarding revised terms for the acquisition of HBOS plc and raising £5.5 billion of new capital, save that the fourth and fifth paragraphs (including the italicised wording in the fifth paragraph) thereof shall not be incorporated by reference in, or form part of, this Prospectus;
- (viii) the Lloyds TSB Group plc interim management statement (the **Management Statement**) published on 3 November 2008;
- (ix) the following sections of the Lloyds TSB Group plc circular dated 3 November 2008 sent, with certain exceptions, to its shareholders (the **Circular**) (page references are to the relevant page(s) of the Circular unless the context otherwise requires):
  - page 2: the section entitled "*Presentation of Information*";
  - page 7: the section entitled "*Expected Timetable of Principal Events*";
  - pages 47 – 52: the section entitled "*Part III, Principal Terms of the Acquisition*", save for sub-sections 9 and 11 thereof;

- pages 53 – 56: the section entitled "*Part IV, Principal Terms of the Placing and Open Offer*", save for sub-sections 5 and 6 thereof;
  - pages 57 – 58: the section entitled "*Part V, Conditions relating to the Proposed Government Funding*";
  - pages 59 – 60: the section entitled "*Part VI, Principal Terms of the Capitalisation Issue*", save for sub-sections 5 and 6 thereof;
  - page 66: section 5 ("*Summary of Total Income, Net of Insurance Claims, by Division*") of the section entitled "*Part VII, Information on the Lloyds TSB Group*";
  - pages 67 – 71: section 7 ("*Current Trading, Trends and Prospects*") of the section entitled "*Part VII, Information on the Lloyds TSB Group*";
  - pages 72 – 74: the section entitled "*Part VIII, Information on the HBOS Group*";
  - pages 75 – 212: the section entitled "*Part IX, Historical Financial Information relating to HBOS plc, Part A – Financial Information for the three years ended 31 December 2007*";
  - pages 213 – 234: the section entitled "*Part IX, Historical Financial Information relating to HBOS plc, Part B – Unaudited Interim Financial Information*";
  - pages 235 – 237: the section entitled "*Part X, Reconciliation of Accounting Policies*";
  - pages 254 – 262: section 9.1 ("*Material Contracts – Lloyds TSB Material Contracts*") of the section entitled "*Part XII, Additional Information*";
  - pages 271 – 273: the section entitled "*Part XIII, HBOS Interim Management Statement 3 November 2008*"; and
  - for the purposes of incorporating by reference the foregoing parts of the Circular, defined terms used (and not otherwise defined) in such parts of the Circular shall have the meanings set out in the section entitled "*Definitions*" on pages 274 – 282 of the Circular, which shall be deemed to be incorporated by reference herein for this purpose;
- (x) the following sections of the Lloyds TSB Group plc prospectus published on 18 November 2008 regarding the proposed placing and open offer of 2,596,653,203 open offer shares at 173.3 pence per open offer share and proposed issue of up to 7,873,180,756 consideration shares in connection with the proposed acquisition of HBOS plc (the **Lloyds TSB Placing and Open Offer Prospectus**) (page references are to the relevant page(s) of the Lloyds TSB Placing and Open Offer Prospectus unless the context otherwise requires):
- pages: 42 – 58, subsections 1-12 (inclusive) (but excluding sub-section 5) and sub-section 15 of the section entitled "*Part VI, Information on the Acquisition, Part A: Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc*";
  - pages: 145 – 151, the section entitled "*Part XVIII, Unaudited Pro Forma Net Assets Statement of the Enlarged Group as at 30 June 2008*";
  - pages: 194 – 197, section 8 ("*Material Contracts*") of the section entitled "*Part XXI, Additional Information*";
  - pages 214 – 224: the section entitled "*Part XXIII, Definitions*" provided that, such section shall only be incorporated by reference for the purposes of construing defined terms set out in: (i) the information incorporated by reference herein from the Lloyds TSB Placing and Open Offer Prospectus; (ii) the section entitled "*Risk Factors relating to the Lloyds TSB Group*" on pages 29 to 44 herein; (iii) the sections entitled "*Lloyds TSB Group – Regulation and Supervision in the United Kingdom*", "*Lloyds TSB Group – Capital, Liquidity and Funding Arrangements*" and "*Lloyds TSB Group – Legal actions*" set out in the section "*Lloyds TSB Group*" on pages 136 to 148 herein;
- (xi) the following sections of the prospectus published by HBOS plc on 18 November 2008 relating to the placing and open offer of 7,482,394,366 open offer shares at 113.6 pence per open offer share (the **HBOS Placing and Open Offer Prospectus**):

- sections 17.1.2, 17.1.3, 17.1.5 and 17.1.6 ("*Material Contracts – HBOS*") of the section entitled "*Part XXII, Additional Information*";
  - section 18.1 ("*Litigation- HBOS*") (except for the second paragraph of sub-section 18.1.4) of the section entitled "*Part XXII, Additional Information*"; and
  - for the purposes of incorporating by reference Part IV of the Lloyds TSB Supplementary Placing and Open Offer Prospectus (as described in (xiii) below) only, the section entitled Part XXIII ("*Definitions*");
- (xii) section 18 ("*Litigation*") of Part XVIII ("*Additional Information*") on pages 185 and 186 of the prospectus published by HBOS plc on 19 June 2008 relating to the 2 for 5 rights issue of 1,499,662,328 new shares at a price of 275 pence per share (the **HBOS Rights Issue Prospectus**); and
- (xiii) the following parts of the supplemental prospectus dated 17 December 2008 relating to the Lloyds TSB Placing and Open Offer Prospectus (the **Lloyds TSB Supplementary Placing and Open Offer Prospectus**):
- Part IV ("*HBOS Trading Update*") on pages 9-10. Defined terms used in Part IV (and not otherwise defined therein) shall have the meanings set out in the section entitled Part XXIII ("*Definitions*") of the HBOS Placing and Open Offer Prospectus, as incorporated by reference herein; and
  - Part V ("*Update on the Acquisition and the Placing and Open Offer, Payment Protection Insurance and Certain Other Matters*") on page 11,

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

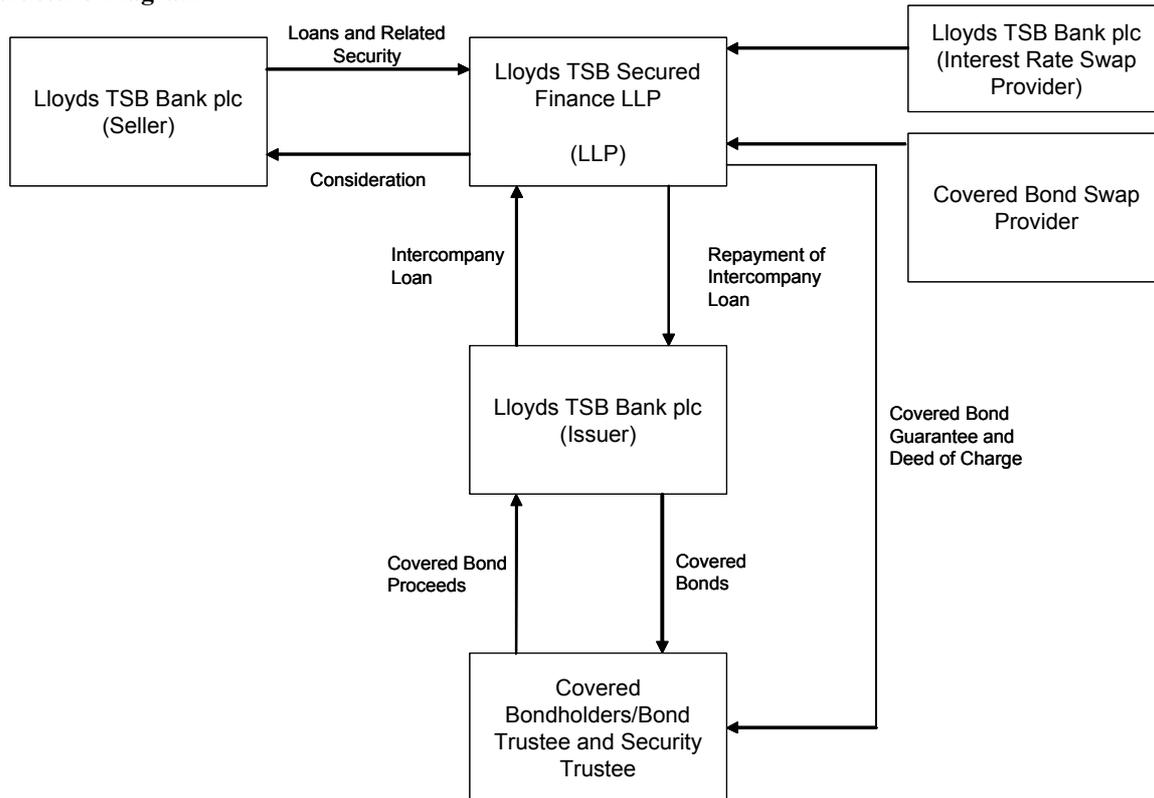
The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which are incorporated in whole or in part by reference herein. Written or oral requests for such documents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

The Issuer and the LLP will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Prospectus (a **Supplementary Prospectus**) or publish a new prospectus for use in connection with any subsequent issue of Covered Bonds. Each of the Issuer and the LLP has undertaken to the relevant Dealer in the Programme Agreement (as defined herein) that it will comply with section 87G of the FSMA.

## STRUCTURE OVERVIEW

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

### Structure Diagram



### Structure Overview

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

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

- *The proceeds of Term Advances:* The LLP will use the proceeds of the Term Advances received under the Intercompany Loan Agreement from time to time (if not denominated in Sterling, upon exchange into Sterling under the applicable Non-Forward Starting Covered Bond Swap):

- (a) to purchase Loans and their Related Security from the Seller in accordance with the terms of the Mortgage Sale Agreement; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit,

to the extent required to meet the Asset Coverage Test and if the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the Regulations, to meet the requirements of Regulations 23 and 24(1)(a) of the RCB Regulations and thereafter may be applied by the LLP:

- (a) to purchase Loans and their Related Security from the Seller in accordance with the Mortgage Sale Agreement; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
- (c) (subject to complying with the Asset Coverage Test, as described below) to make a Capital Distribution to a Member; and/or
- (d) if an existing Series or Tranche or part of an existing Series or Tranche of Covered Bonds is being refinanced (by the issue of a further Series or Tranche of Covered Bonds), to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced; and/or
- (e) to make a deposit of all or part of the proceeds in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the Reserve Fund Required Amount).

To protect the value of the Portfolio, under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) will be obliged to ensure that the Asset Coverage Test (as described above) will be satisfied on each Calculation Date.

- *Consideration:* Under the terms of the Mortgage Sale Agreement, the consideration payable to the Seller for the sale of Loans and their Related Security to the LLP on any Sale Date will be a combination of:

- (a) a cash payment made by the LLP to the Seller from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;
- (b) the Seller being treated as having made a Capital Contribution in Kind to the LLP (in an amount up to the difference between the aggregate Current Balance of the Loans sold by the Seller as at the relevant Sale Date and the aggregate cash payment (if any) made by the LLP); and/or
- (c) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available funds and after the making of any provisions in accordance with normal accounting practice) in accordance with the relevant Priorities of Payments.

- *Security:* To secure its obligations under the Covered Bond Guarantee and the Transaction Documents to which it is a party, the LLP has granted security over the Charged Property (which consists principally of the LLP's interest in the portfolio of Loans and their Related Security, the Substitution Assets, the Transaction Documents to which it is a party, the LLP Accounts and any Authorised Investments it holds) in favour of the Security Trustee (for itself and on behalf of the other Secured Creditors) pursuant to the Deed of Charge.

- *Cashflows*: Provided no Asset Coverage Test Breach Notice is outstanding, prior to service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings against the LLP, the LLP will:
  - apply Available Revenue Receipts to pay any amounts due (excluding principal amounts) on the Term Advances to the Issuer and to pay Deferred Consideration (including any Postponed Deferred Consideration) to the Seller in respect of the Loans sold by the Seller to the LLP. However, these payments will only be made after payment of certain items ranking higher in the Pre-Acceleration Revenue Priority of Payments (including, without limitation, certain expenses and amounts due to the Interest Rate Swap Provider and the Covered Bond Swap Provider, amounts required to be credited to the GIC Account with a corresponding credit to the Pre-Maturity Liquidity Ledger). For further details of the Pre-Acceleration Revenue Priority of Payments, see *Cashflows* below; and
  - apply Available Principal Receipts towards making Capital Distributions to the Members but only after payment of certain items ranking higher in the Pre-Acceleration Principal Priority of Payments (including, without limitation, funding any liquidity that may be required in respect of Hard Bullet Covered Bonds following any breach of the Pre-Maturity Liquidity Test, acquiring New Loans and their Related Security offered by the Seller to the LLP and making repayments of corresponding Term Advances). For further details of the Pre-Acceleration Principal Priority of Payments, see *Cashflows* below.

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

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

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

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

realisation of such Security and/or the commencement of winding-up proceedings against the LLP will be distributed according to the Post-Enforcement Priority of Payments, see *Cashflows* below.

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

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

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

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

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

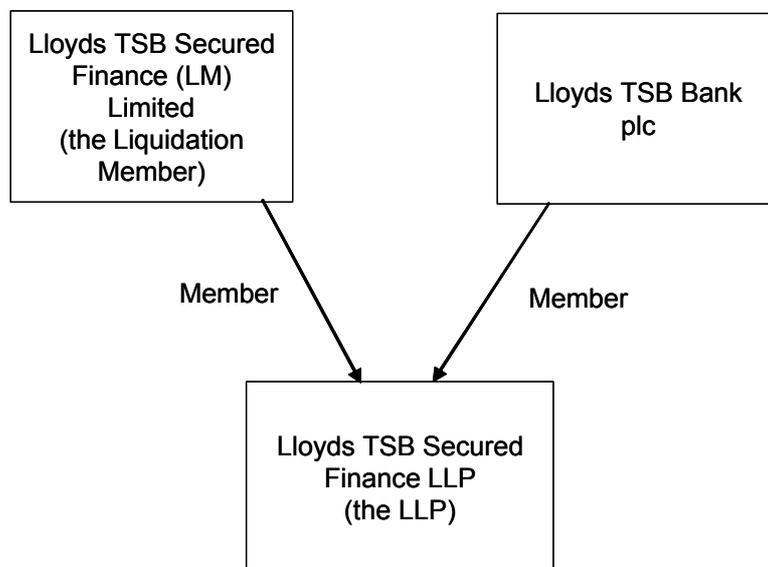
available to it, pay such unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date). The LLP will pay the Guaranteed Amounts constituting Scheduled Interest on each Original Due for Payment Date and on the Extended Due for Payment Date.

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

#### **Ownership Structure of Lloyds TSB Secured Finance LLP**

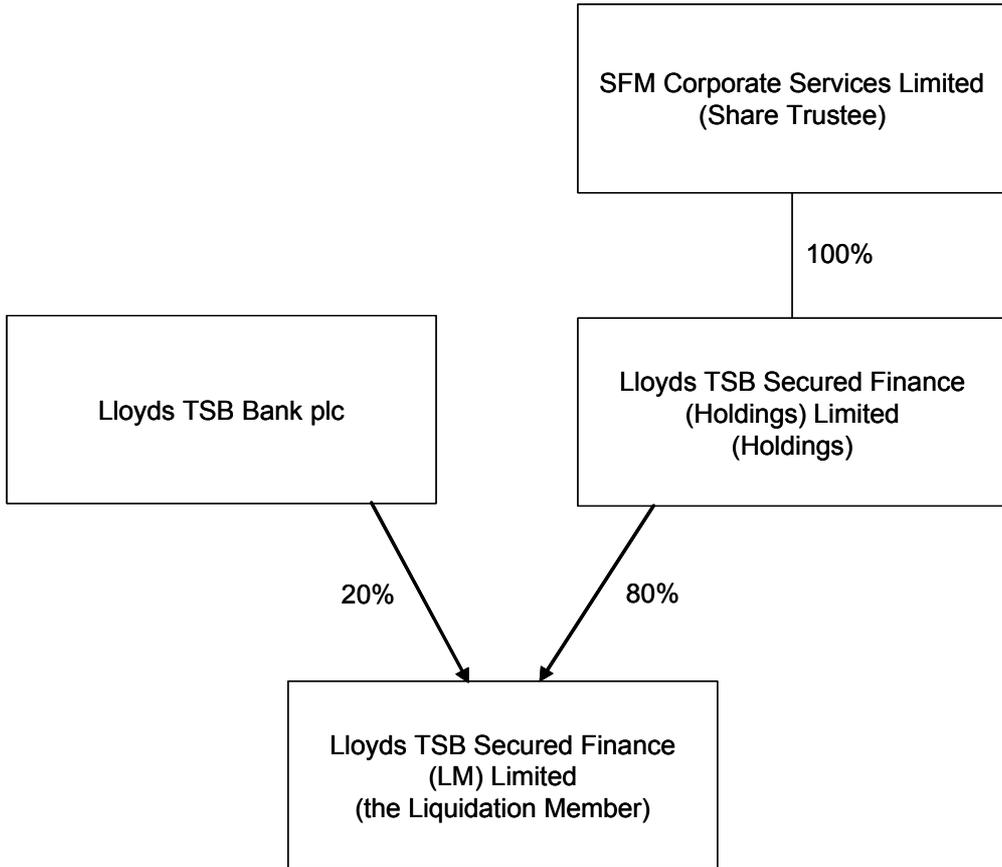
- As at the Programme Date the Members of the LLP are Lloyds TSB Bank plc and the Liquidation Member.
- Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP (as described under *Summary of the Principal Documents – Mortgage Sale Agreement* below) will, amongst other things, be required to become a Member of the LLP and will accede to, *inter alia*, the LLP Deed.

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



**Ownership Structure of the Liquidation Member**

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



## OVERVIEW OF THE PROGRAMME

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

**Issuer:** Lloyds TSB Bank plc, a public limited company incorporated in England and Wales (registered no. 2065).

For a more detailed description of the Issuer, see *Lloyds TSB Group* below.

**LLP:** Lloyds TSB Secured Finance LLP, a limited liability partnership incorporated in England and Wales (registered no. OC341740). The LLP is a subsidiary of Lloyds TSB Bank plc and its Members on the Programme Date are Lloyds TSB Bank plc and the Liquidation Member. The LLP is a special purpose vehicle whose business is to borrow Term Advances from the Issuer, acquire, *inter alia*, Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement and to guarantee certain payments in respect of the Covered Bonds. The LLP will hold the Portfolio and the other Charged Property in accordance with the terms of the Transaction Documents.

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

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

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

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

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

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

**Principal Paying Agent and Agent Bank:** The Bank of New York Mellon acting through its office at 40th Floor, One Canada Square, London E14 5AL, has been appointed pursuant to the Agency Agreement as Principal Paying Agent and Agent Bank.

**Exchange Agent:** The Bank of New York Mellon acting through its office at 40th Floor, One Canada Square, London E14 5AL has been appointed pursuant to the Agency Agreement as exchange agent.

Registrar:	The Bank of New York Luxembourg S.A., whose registered office is at Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg, has been appointed pursuant to the Agency Agreement as registrar.
Bond Trustee:	BNY Corporate Trustee Services Limited, acting through its office at 40th Floor, One Canada Square, London, E14 5AL, has been appointed to act as bond trustee on behalf of the Covered Bondholders in respect of the Covered Bonds and holds the benefit of, <i>inter alia</i> , the Covered Bond Guarantee on behalf of the Covered Bondholders pursuant to the Trust Deed.
Security Trustee:	BNY Corporate Trustee Services Limited, acting through its office at 40th Floor, One Canada Square, London, E14 5AL, has been appointed to act as security trustee to hold the benefit of the security granted by the LLP to the Security Trustee (for itself, the Covered Bondholders and the other Secured Creditors) under the Deed of Charge.
Asset Monitor:	PricewaterhouseCoopers LLP has been appointed pursuant to the Asset Monitor Agreement as an independent monitor to perform tests in respect of the Asset Coverage Test and the Amortisation Test when required.
Covered Bond Swap Provider:	<p>Each swap provider which agrees to act as Covered Bond Swap Provider to the LLP to hedge certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and:</p> <ul style="list-style-type: none"> <li>(a) in the case of a Non-Forward Starting Covered Bond Swap, amounts due and payable by the LLP under the Intercompany Loan Agreement or, if a Notice to Pay or an LLP Acceleration Notice has been served, under the Covered Bond Guarantee; or</li> <li>(b) in the case of a Forward Starting Covered Bond Swap, if a Notice to Pay or an LLP Acceleration Notice has been served, amounts due and payable by the LLP under the Covered Bond Guarantee,</li> </ul> <p>in respect of the Covered Bonds by entering into Covered Bond Swaps with the LLP and the Security Trustee under the Covered Bond Swap Agreements. In the event that the ratings of a Covered Bond Swap Provider fall below a specified ratings level, the relevant Covered Bond Swap Provider will be required to obtain a guarantee of its obligations from an appropriately rated guarantor or put in place other appropriate credit support arrangements in order to maintain the then current ratings of the Covered Bonds. Lloyds TSB Bank plc or such other person referred to in a Covered Bond Swap Agreement may act as Covered Bond Swap Provider.</p>
Interest Rate Swap Provider:	Lloyds TSB Bank plc acting through its office c/o C&G, Barnett Way, Gloucester GL4 3RL, has agreed to act as interest rate swap provider to the LLP to hedge possible variances between the rates of interest payable on the Loans sold by the Seller to the LLP and LIBOR for periodic Sterling deposits by entering into Interest Rate Swap with the LLP and the Security Trustee under the Interest Rate Swap Agreement. The Interest Rate Swap Provider will be required to either obtain a guarantee of its obligations from an appropriately rated guarantor or put in place other appropriate credit support arrangements (in order to maintain the then current ratings of the Covered Bonds) in the event that its ratings fall below a specified ratings level.
GIC Provider:	Lloyds TSB Bank plc, acting through its office at Financial Markets, 10 Gresham Street, London, EC2V 7AE, has agreed to act as GIC Provider to the LLP pursuant to the Bank Account Agreement and the Guaranteed

	Investment Contract.
Account Bank:	Lloyds TSB Bank plc, acting through its office at Financial Markets, 10 Gresham Street, London EC2V 7AE (with respect to the GIC Account) and through its branch at City Office Branch, P.O. Box 72, Bailey Drive, Gillingham, Kent, ME8 OL5 (with respect to the Transaction Account) has agreed to act as an Account Bank to the LLP pursuant to the Bank Account Agreement.
Liquidation Member:	Lloyds TSB Secured Finance (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6760619). The Liquidation Member is 80 per cent. owned by Holdings and 20 per cent. owned by Lloyds TSB Bank plc.
Holdings:	Lloyds TSB Secured Finance (Holdings) Limited a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6760604). All of the shares of Holdings are held by the Share Trustee on trust for the benefit of certain discretionary objects.
Share Trustee:	SFM Corporate Services Limited, acting through its office at 35 Great St. Helen's, London EC3A 6AP holds all of the shares of Holdings on trust for the benefit of certain discretionary objects.
Corporate Services Provider:	Structured Finance Management Limited, acting through its office at 35 Great St. Helen's, London EC3A 6AP has been appointed to provide certain corporate services to the Liquidation Member, Holdings and the LLP, respectively, pursuant to the Corporate Services Agreement.
Programme description:	Global Covered Bond Programme.
Arranger:	Lloyds TSB Bank plc acting through its office at Financial Markets, 10 Gresham Street, London EC2V 7AE.
Relevant Dealer:	To be selected from time to time in accordance with the terms of the Programme Agreement. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc (referred to throughout this Prospectus as the <b>Dealer</b> ).
Certain restrictions:	Each issue of Covered Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See <i>Subscription and Sale and Transfer and Selling Restrictions</i> below.
Programme size:	Up to £30 billion (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time as described herein. The Issuer and the LLP may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis, subject to the restrictions set forth in <i>Subscription and Sale and Transfer and Selling Restrictions</i> below.
Specified Currency:	Subject to any applicable legal or regulatory restrictions, such currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee (as set out in the applicable Final Terms).
Redenomination:	The applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro.
Maturities:	The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be

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

Floating Rate Covered Bonds and Variable Interest Covered Bonds:	also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer.
Currency Linked Covered Bonds:	Payments (of principal or interest and/or at maturity or otherwise) in respect of Currency Linked Covered Bonds will be made in such currencies, and by reference to such rates of exchange and/or such formulae, as specified in the relevant Final Terms.
Dual Currency Linked Covered Bonds:	Payments (of principal and/or interest at maturity or otherwise) in respect of Dual Currency Linked Covered Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as set out in the applicable Final Terms).
Variable Interest Covered Bonds:	Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable are referred to as <b>Variable Interest Covered Bonds</b> .
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds, bearing no interest, may be offered and sold at a discount to their nominal amount unless otherwise specified in the applicable Final Terms.
Partly-Paid Covered Bonds:	Covered Bonds may be issued on a partly-paid basis in which case interest will accrue on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.
Instalment Covered Bonds:	Covered Bonds may be issued on an instalment basis in which case such Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
Hard Bullet Covered Bonds:	The applicable Final Terms may provide that certain Series of Covered Bonds may be scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for an Extended Due for Payment Date under the Covered Bond Guarantee (the <b>Hard Bullet Covered Bonds</b> ). In such a case, on each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Liquidity Test has been breached, and if so, it shall immediately notify the Members and the Security Trustee thereof.
Redemption:	The applicable Final Terms relating to each Tranche of Covered Bonds will indicate either that such Covered Bonds cannot be redeemed prior to their stated maturity (other than, if applicable, in specified instalments, for taxation reasons or if it becomes unlawful for any Term Advance to remain outstanding or following an Issuer Event of Default or an LLP Event of Default) or that such Covered Bonds will be redeemable or, following purchase of such Covered Bonds by the Issuer or any of its subsidiaries (including the LLP), any holding company of the Issuer or any subsidiary of any such holding company, cancellable at the option of the Issuer and/or the Covered Bondholders upon appropriate notice in accordance with the Terms and Conditions or such other period of notice (if any) as is indicated in the applicable Final Terms to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of the Registered Covered Bonds) and the Covered Bondholders or to the

Issuer (as the case may be), on one or more specified dates prior to their stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer (as set out in the applicable Final Terms).

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

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

Extendable obligations under the Covered Bond Guarantee:

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

Denomination of Covered Bonds:

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

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

Taxation:

All payments in respect of the Covered Bonds will be made without deduction or withholding for or on account of United Kingdom taxes,

save as provided in Condition 7. If any such deduction or withholding is made, the Issuer will, save as provided in Condition 7, be required to pay additional amounts in respect of the amounts so deducted or withheld. Under the Covered Bond Guarantee, the LLP will not be liable to pay any such additional amounts payable by the Issuer under Condition 7.

Cross Default for Covered Bonds:	If an LLP Acceleration Notice is served in respect of any one Series of Covered Bonds, then the obligation of the LLP to pay Guaranteed Amounts in respect of all Series of Covered Bonds then outstanding will be accelerated.
Status of the Covered Bonds:	The Covered Bonds will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves and (save for any obligations required to be preferred by law) at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Covered Bond Guarantee:	Payment of Guaranteed Amounts in respect of the Covered Bonds when Due for Payment will be irrevocably guaranteed by the LLP. The obligations of the LLP to make payment in respect of the Guaranteed Amounts when Due for Payment are subject to the condition that a Notice to Pay or an LLP Acceleration Notice has been served on the LLP. The obligations of the LLP under the Covered Bond Guarantee will accelerate against the LLP upon service of an LLP Acceleration Notice. The obligations of the LLP under the Covered Bond Guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets.
Ratings:	Covered Bonds to be issued under the Programme will at the time of issue, unless otherwise specified in the applicable Final Terms, be rated "AAA" by S&P and "Aaa" by Moody's.
Listing and admission to trading:	<p>Application has been made to the UK Listing Authority for Covered Bonds issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Covered Bonds to be admitted to trading on the regulated market of the London Stock Exchange during the period of 12 months from the date of this Prospectus.</p> <p>Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or regulated or unregulated markets, as may be agreed between the Issuer, the LLP, the Bond Trustee and the relevant Dealer in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.</p>
The Regulated Covered Bonds Regulations 2008:	The Issuer may apply to the FSA for the Issuer to be admitted to the register of issuers under the RCB Regulations, but the Issuer does not currently intend to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations such that, if and until the Issuer elects to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds and such application is successful, any Covered Bonds issued under the Programme will not be regulated covered bonds irrespective of whether or not the Issuer is admitted to the register of issuers under the RCB Regulations. As at the date of this Prospectus, neither the Issuer nor the Programme nor any Covered Bonds issued under the Programme is so registered or so regulated.
Governing law:	The Covered Bonds shall be governed by, and construed in accordance

with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of any Tranche of Covered Bonds in the United States, the European Economic Area (including the United Kingdom, The Netherlands, the Republic of Italy, Germany and the Republic of France) and Japan. Other restrictions may apply in connection with the offering and sale of a particular Tranche of Covered Bonds. See Subscription and Sale and Transfer and Selling Restrictions.

Risk Factors:

There are certain risks related to any issue of Covered Bonds under the programme, which investors should ensure they fully understand, a non-exhaustive summary of which is set out under *Risk Factors* below.

## RISK FACTORS

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

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

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

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

### **RISK FACTORS RELATING TO THE LLOYDS TSB GROUP**

*Terms defined in this section "Risk factors relating to the Lloyds TSB Group" shall have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.*

#### **1. Risks relating to the Lloyds TSB Group and, if the Acquisition becomes Effective, the Enlarged Group**

*1.1 The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks arising from general and sector specific economic conditions in the markets in which they operate, particularly the United Kingdom. Adverse developments, such as the current and ongoing crisis in the global financial markets and further deterioration of general economic conditions, particularly in the UK, have already adversely affected the Lloyds TSB Group's earnings and profits and could continue to cause its and the Enlarged Group's profitability to decline*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks arising from general and sector-specific economic conditions in the markets in which they operate, particularly the United Kingdom in which the Lloyds TSB Group's earnings are, and the Enlarged Group's earnings will be, predominantly generated. Over approximately the past 15 months, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty, particularly the very severe dislocation of the financial markets around the world that began in August 2007 and has substantially worsened since September 2008 and related problems at many large global and UK commercial banks, investment banks, insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the United Kingdom and other governments to inject liquidity into the financial system and require

(and participate in) recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector have continued to a degree unprecedented in recent history. This market dislocation has also been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. There is increasing concern of a deep and prolonged global recession. These conditions have already adversely affected the Lloyds TSB Group's and the HBOS Group's earnings and profits. Continued general deterioration in the UK or other major economies throughout the world, including, but not limited to, business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would reduce the level of demand for, and supply of, the Lloyds TSB Group's and the Enlarged Group's products and services, lead to lower realisations and write downs and impairments of investments and negative fair value adjustments of assets and materially and adversely impact their operating results, financial condition and prospects.

Additionally, the profitability of the Lloyds TSB Group's and the Enlarged Group's insurance businesses could be affected by increased claims from market factors such as increased unemployment. Significantly higher UK unemployment, reduced corporate profitability, increased corporate insolvency rates, increased personal insolvency rates and/or increased interest rates may reduce borrowers' ability to repay loans and may cause prices of residential or commercial real estate or other asset prices to fall further, thereby reducing the collateral value on many of the Lloyds TSB Group's and the Enlarged Group's loans and increasing write downs and, if this happens, impairment losses will occur. Poor general economic conditions and difficulty in valuation have depressed asset valuations for both the Lloyds TSB Group and the HBOS Group and are likely to continue to do so. This would be exacerbated by a further deterioration in general economic conditions.

As discussed in greater detail in the risk factor numbered 1.3 below, the Lloyds TSB Group has not yet been able to assess fully the level of fair value adjustments of the assets of the HBOS Group to be acquired in the Acquisition or other aspects of the HBOS business. If the fair valuation of the assets of the HBOS Group is materially less than anticipated, this could have a material and adverse impact on the financial condition and prospects of the Enlarged Group.

The exact nature of the risks faced by the Lloyds TSB Group and the Enlarged Group is difficult to predict and guard against in view of the severity of the global financial crisis and the fact that many of the related risks to the business are totally or in part outside of the control of the Lloyds TSB Group and the Enlarged Group.

*1.2 The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, inherently subject to the risk of market fluctuations, which could adversely affect operating results, financial condition and prospects*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, inherently subject to the risk of financial market fluctuations, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices and the risk that their customers act in a manner which is inconsistent with business, pricing and hedging assumptions.

Market movements have (and will have) an impact on the Lloyds TSB Group and the Enlarged Group in a number of key areas. For example, adverse market movements would have an adverse effect, which could be material, upon the financial condition of the pension schemes of the Lloyds TSB Group and the Enlarged Group. In addition, banking and trading activities that are undertaken by the Lloyds TSB Group and will be undertaken by the Enlarged Group are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. For example, changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Since August 2007, there has been a period of unprecedented high and volatile interbank lending rates (to the extent banks have been willing to lend at all), which has exacerbated these risks. Competitive pressures or fixed rates in existing loan commitments or facilities may mean that the Lloyds TSB Group is and the Enlarged Group will be restricted in their ability to increase interest rates charged to customers in response to changes in interest rates that affect wholesale borrowing. In addition, such increases in interest rates may result in each of the Lloyds TSB Group and the Enlarged Group having to increase the rates paid to wholesale and retail customers, which would have an adverse impact on net interest margins.

The insurance and investments businesses of the Lloyds TSB Group, and of the Enlarged Group, will face market risk arising, for example, from equity, bond and property markets in a number of ways depending upon

the product and associated contract. Some of these risks are borne directly by the customer and some are borne by the insurance and investments businesses. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance and investments businesses will bear some of the cost of such guarantees and options. The insurance and investments businesses also have capital invested in the markets that are exposed to market risk. The performance of the investment markets will thus have a direct impact upon the embedded value of insurance and investments contracts and the Lloyds TSB Group's and Enlarged Group's operating results, financial condition and prospects. Adverse investment market conditions can affect investor confidence, which in turn can result in lower sales and/or reduced persistency.

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

*1.3 Market conditions have resulted, and may in the future result, in material negative adjustments to the estimated fair values of financial assets of the Lloyds TSB Group and the Enlarged Group. This may include material negative adjustments to the valuation of financial assets that the Lloyds TSB Group will acquire as part of the Acquisition compared to the book value of such assets as at 30 June 2008. Any such negative fair value adjustments could have a material adverse effect on operating results, financial conditions or prospects*

Financial markets have been subject to significant stress conditions resulting in steep falls in perceived or actual financial asset values. The severity of this phenomenon is exemplified by the current and ongoing crisis in the global financial markets.

The fair value of the Lloyds TSB Group's and the Enlarged Group's financial assets could fall further and therefore result in negative adjustments, particularly in view of current market dislocation and the prospect of recession. Asset valuations in future periods, reflecting then prevailing market conditions, may result in further negative changes in the fair values of the Lloyds TSB Group's and the Enlarged Group's financial assets. In addition, the value ultimately realised by the Lloyds TSB Group and the Enlarged Group may be lower than the current fair value. Any of these factors could require the Lloyds TSB Group and the Enlarged Group to record further negative fair value adjustments, which may have a material adverse effect on their operating results, financial condition or prospects.

The Lloyds TSB Group has made, and the Enlarged Group may make in the future, asset redesignations as permitted by recent amendments to IAS 39. The effect of such redesignations has been and would be that any effect on the profit and loss account of movements in the fair value of such redesignated assets that has occurred since 1 July 2008, in the case of assets redesignated prior to 1 November 2008, or may occur in the future may not be recognised until such time as the assets become impaired or are disposed of.

In addition, to the extent that fair values are determined using financial valuation models, the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of substantial instability such as the current economic crisis. In such circumstances the Lloyds TSB Group's valuation methodologies require it to make assumptions, judgements and estimates in order to establish fair value. These valuation models are complex and the assumptions used are difficult to make and are inherently uncertain, particularly in light of the uncertainty resulting from the current and ongoing crisis in the global financial markets.

In addition to some exposures of the Lloyds TSB Group to similar investments, the HBOS Group has, and the Enlarged Group will have, a significant portfolio of securities and other investments, including asset backed securities, structured investments and private equity investments, that are recorded at fair value and are therefore exposed to further negative fair value adjustments in the event of deterioration in market conditions.

Furthermore, fair value adjustments will be required in connection with the Acquisition. The *pro forma* net assets of the HBOS Group do not take account of any fair value adjustments that will be required as a result of the Acquisition. The Lloyds TSB Group has not yet been able to assess fully the level of fair value adjustments of the assets of the HBOS Group. These adjustments may be material. The provisional results of this valuation exercise are not expected to be available until such time as the Lloyds TSB Group publishes its interim financial statements for the six-month period ended 30 June 2009. Given the material deterioration in the value of the financial assets since 30 June 2008, and the market outlook for the near future, as well as the different valuation

methodologies for such assets, following the Acquisition, such fair valuations will differ from the book value of the HBOS Group's net assets at 30 June 2008 and such difference may be material.

*1.4 The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning borrower and counterparty credit quality which could affect the recoverability and value of assets on the balance sheet. As a result of the Acquisition, the Enlarged Group will have greater exposure to certain sectors and asset classes than the Lloyds TSB Group currently has*

The Lloyds TSB Group makes, and the Enlarged Group will make, both secured and unsecured loans to retail and corporate customers. The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties. Changes in the credit quality of the Lloyds TSB Group's or the Enlarged Group's UK and/or international borrowers and counterparties, or in their behaviour, or arising from systemic risks in the UK and global financial system, could reduce the value of the Lloyds TSB Group's and the Enlarged Group's assets, and increase the Lloyds TSB Group's and the Enlarged Group's write downs and allowances for impairment losses. Factors including higher UK unemployment, reduced corporate profitability, increased corporate and personal insolvencies and/or increased interest rates may reduce borrowers' ability to repay loans. The outlook for the UK (and the global) economy has deteriorated significantly in recent months and this deterioration is expected to continue for the foreseeable future. In addition, changes in economic conditions may result in a deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default.

UK house prices have declined significantly in recent months, reflecting economic downturn and uncertainty, reduced affordability and lower availability of credit. Economic or other factors are likely to lead to further contraction in the mortgage market and further decreases in housing prices. Many borrowers in the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of mortgages together with the potential for higher mortgage rates have led and will continue to lead to higher delinquency rates. The Lloyds TSB Group and, to a greater extent, the HBOS Group both provide mortgages to buy-to-let investors where an excess supply of rental property or falls in rental demand could also impact the borrowers' income and ability to service the loans. In addition, the HBOS Group has a substantial exposure to the self-certified mortgage sector where the Lloyds TSB Group has no exposure. If the current economic downturn continues, with further falls in house prices and increases in unemployment, the Enlarged Group's mortgage portfolios are likely to generate substantial increases in impairment losses which could materially affect the operations, financial condition and prospects of the Enlarged Group.

The average rating of the HBOS Group's corporate lending portfolio is lower than that of the Lloyds TSB Group, with substantial lending to mid-sized and private companies. The HBOS Group also has greater exposure to leveraged finance and subordinated loans, as well as significant exposure to the commercial real estate sector, including hotels and residential property developers. Commercial real estate prices have shown declines over the last year and the construction and real estate sectors are facing very challenging market conditions. If the current economic downturn continues, as expected, with weakening consumer spending and falling corporate profitability, the Enlarged Group's corporate lending portfolios are likely to generate substantial increases in impairment losses which could materially affect the operations, financial condition and prospects of the Enlarged Group.

*1.5 The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to inherent risks concerning liquidity, particularly if current market conditions continue to reduce the availability of traditional sources of funding or the access to wholesale money markets becomes more limited, which could affect the Lloyds TSB Group's and the Enlarged Group's ability to meet its financial obligations as they fall due*

The Lloyds TSB Group's businesses are, and the Enlarged Group's businesses will be, subject to risks concerning liquidity, which are inherent in banking operations, and could affect the Lloyds TSB Group's and the Enlarged Group's ability to meet financial obligations as they fall due or to fulfil commitments to lend. The HBOS Group has a funding profile that involves the need to refinance a significantly higher level of loan assets than that of the Lloyds TSB Group. Accordingly, the Enlarged Group's funding profile will involve higher refinancing risk than for the Lloyds TSB Group on a stand-alone basis. It is expected that the Enlarged Group will be required to refinance a significant amount of funding due to mature during 2009. These risks can be exacerbated by many enterprise-specific factors, including an overreliance on a particular source of funding (including, for example, securitisations, covered bonds and short-term and overnight money markets), and changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is

also a risk that corporate and institutional counterparties may look to reduce aggregate credit exposures to the Enlarged Group or to all banks. The funding needs of the Enlarged Group will increase to the extent that customers, including conduit vehicles of the Enlarged Group, draw down under existing credit arrangements with the Enlarged Group and such increases in funding needs may be material. In order to continue to meet their funding obligations and to maintain or grow their businesses generally the Lloyds TSB Group relies, and the Enlarged Group will rely, on customer savings and transmission balances, as well as ongoing access to the wholesale lending markets and Bank of England liquidity facilities and the UK Government's guarantee scheme. The ability of the Lloyds TSB Group and the Enlarged Group to access wholesale and retail funding sources on favourable economic terms is subject to a variety of factors, including a number of factors outside of their control, such as liquidity constraints, general market conditions and loss of confidence in the UK banking system. See the risk factor numbered 1.19 for a discussion of the competitive nature of the banking industry and competitive pressures that could have a negative impact on the availability of customer deposits and retail funding. In the current environment of unprecedented market volatility, banks' access to traditional sources of liquidity has been and may continue to be significantly restricted which may affect Lloyds TSB Group's and the Enlarged Group's access to such sources of liquidity.

While various governments including the UK Government have taken substantial measures to ease the crisis in liquidity, such as the measures announced in the UK on 8 October 2008 and 13 October 2008, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks, including the Lloyds TSB Group and the Enlarged Group. In addition, the availability and the terms on which any such measures will be made available to the Lloyds TSB Group (whether in the form of access to HM Treasury's recapitalisation scheme or guarantee scheme for short- and medium-term debt issuance or the Bank of England's special liquidity scheme) and how and when such measures will be implemented are uncertain. Lloyds TSB has, and the Enlarged Group will have, no influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall cost of funding of the Lloyds TSB Group or the Enlarged Group. The Lloyds TSB Group expects that the Enlarged Group will substantially rely for the foreseeable future on the continued availability of Bank of England liquidity facilities as well as HM Treasury's guarantee scheme for short- and medium-term debt issuance. If the Bank of England liquidity facility, HM Treasury's guarantee scheme or other sources of short-term funding are not available after that period, the Lloyds TSB Group, or the Enlarged Group, could face serious liquidity constraints, which would have a material adverse impact on its solvency.

Access to sufficient liquidity might also determine whether or not the Lloyds TSB Group will be in a position to redeem or repurchase the Enlarged Group HMT Preference Shares to be held by HM Treasury in accordance with their terms or, if circumstances permit, to repurchase them early. See the risk factor numbered 3.3 for a discussion of the limitation on cash dividends and other terms of the Enlarged Group HMT Preference Shares.

#### *1.6 The Lloyds TSB Group is subject, and the Enlarged Group will be subject, to the risk of insufficient capital resources to meet the minimum required by regulators*

The Lloyds TSB Group is, and the Enlarged Group will be, subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements. In addition, those minimum regulatory requirements may increase in the future.

In the Announcement of 13 October 2008 Lloyds TSB stated that the *pro forma* core Tier 1 capital ratio for the Enlarged Group as at 30 June 2008 would have been in excess of 8.5 per cent. Such *pro forma* core Tier 1 capital ratio number does not take account of net negative capital adjustments that would be required to be made since that date and is for illustrative purposes only. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

The Enlarged Group's ability to maintain its targeted and regulatory capital ratios will depend on a number of factors, including post-Acquisition net synergies and implementation costs, the level of Enlarged Group's risk-weighted assets, the Enlarged Group's post-tax profit and the level of net negative capital adjustments resulting from the Acquisition. More specifically, the Enlarged Group's ability to maintain its targeted and regulatory capital ratios will be significantly impacted by net negative capital adjustments resulting from the Acquisition. In addition to the impact of net negative capital adjustments, the Enlarged Group's core Tier 1 ratio will be directly impacted by any shortfall in forecasted after-tax profit (which could result, most notably, from greater than anticipated asset impairments and/or adverse volatility relating to the insurance business). Furthermore, under Basel II, capital requirements are inherently more sensitive to market movements than under previous

regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Enlarged Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse impact on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects. A shortage of available capital would also affect the ability to continue organic growth or to pursue acquisition or other strategic opportunities. For further information see section 9 ("*Dividend Policy, Capitalisation Issue and Capital Position*"), Part A ("*Letter from Sir Victor Blank, Chairman of Lloyds TSB Group plc*") of Part VI ("*Information on the Acquisition*") of the Lloyds TSB Placing and Open Offer Prospectus which is incorporated by reference herein.

The Lloyds TSB Group's life assurance and general insurance businesses in the UK are, and the Enlarged Group's life assurance and general insurance businesses will be, subject to the capital requirements prescribed by the FSA, and the Lloyds TSB Group's life and general insurance companies outside the UK are, and the Enlarged Group's will be, subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad "framework" principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. At this early stage of development, it is not possible to predict the ultimate impact of this proposed regime on the Lloyds TSB Group's or the Enlarged Group's capital. However, the final regime could significantly impact the regulatory capital the Lloyds TSB Group's or the Enlarged Group's life assurance and general insurance businesses are required to hold.

*1.7 The Lloyds TSB Group and the Enlarged Group could be negatively affected by the soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties*

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

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

*1.8 If the perceived credit-worthiness of monoline insurers and other market counterparties continues to deteriorate, the Lloyds TSB Group and the Enlarged Group may be forced to record further credit valuation adjustments on securities insured or guaranteed by such parties, which could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's results of operations, financial condition and prospects*

The Lloyds TSB Group has, and the Enlarged Group will have, credit exposure to monoline insurers and other market counterparties through securities insured or guaranteed by such parties and credit protection bought from such parties with respect to certain over-the-counter derivative contracts, mainly credit default swaps (CDSs) which are carried at fair value. The fair value of these underlying CDSs and other securities, and the Lloyds TSB Group's and the Enlarged Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought as well as on the credit-worthiness of the relevant monoline or other insurer. In 2007

and 2008, monoline and other insurers and other market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived credit-worthiness has deteriorated significantly in 2008. Their credit-worthiness may further deteriorate as a consequence of the deterioration of the value of underlying assets. Although the Lloyds TSB Group tries, and the Enlarged Group will try, to limit and manage direct exposure to monoline or other insurers and other market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of monoline or other insurers or market counterparties or their perceived credit-worthiness deteriorates further, the Lloyds TSB Group and/or the Enlarged Group may record further credit valuation adjustments on the underlying instruments insured by such parties in addition to those already recorded. In addition, to the extent that asset devaluations lower the credit-worthiness of monoline insurers, the Lloyds TSB Group and the Enlarged Group would be further exposed to diminished credit-worthiness of such insurers themselves. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Lloyds TSB Group and/or the Enlarged Group.

*1.9 The Lloyds TSB Group's and the Enlarged Group's insurance and investments businesses and employee pension schemes are subject to risks relating to insurance claims rates, pension scheme benefit payment levels and changes in insurance customer and employee pension scheme member behaviour*

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

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

The general insurance businesses of the Lloyds TSB Group and the Enlarged Group are exposed to the risk of uncertain insurance claim rates. For example, extreme weather conditions can result in high property damage claims, higher levels of theft can increase claims on property, contents and motor vehicle insurance and changes to unemployment levels can increase claims on loan protection insurance. These claims rates may differ from business assumptions and negative developments may adversely affect the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations. UK banks recognise an asset in their balance sheets representing the value of in-force business (**VIF**) in respect of long-term life assurance contracts, being insurance contracts and investment contracts with discretionary participation features. This asset represents the present value of future profits expected to arise from the portfolio of in-force life assurance contracts. Adoption of this accounting treatment results in the earlier recognition of profit on new business, but subsequently a lower contribution from existing business, when compared to the recognition of profits on investment contracts under IAS 39 (*Financial Instruments: Recognition and Measurement*). Differences between actual and expected experience may have a significant impact on the value of the VIF asset, as changes in experience can result in significant changes to modelled future cash flows. The VIF asset is calculated based on best-estimate assumptions made by management, including the value of investments under management, mortality experience and persistency. If these assumptions prove incorrect, the VIF asset could be materially reduced, which in turn could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's financial condition and results of operations.

Also, as further described in the risk factor numbered 1.2, the Lloyds TSB Group's and the Enlarged Group's insurance assets are subject to the risk of market fluctuations.

*1.10 The Lloyds TSB Group's and the HBOS Group's borrowing costs and access to the capital markets depend significantly on their credit ratings, as will those of the Enlarged Group*

As at the date of this document, the long-term credit ratings for the Lloyds TSB Group are Aaa from Moody's Investors Service, AA from Standard & Poor's rating service, AA+ from Fitch Ratings and AA(H) from DBRS.

As at the date of this document, the long-term credit ratings for the HBOS Group are Aa2 from Moody's Investors Service, A+ from Standard & Poor's rating service, AA from Fitch Ratings and AA(H) from DBRS. Recently, each of these ratings services placed the long-term credit ratings of both the Lloyds TSB Group and the HBOS Group on watch with negative implications. Reduction in the long-term credit ratings of the Lloyds TSB Group, the HBOS Group and/or the Enlarged Group could significantly increase their respective borrowing costs, limit their access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, a reduction in credit ratings could materially adversely affect the Enlarged Group's access to liquidity and competitive position and, hence, have a material adverse effect on the Enlarged Group's business, financial position and results of operations.

*1.11 Weaknesses or failures in the Lloyds TSB Group's and the Enlarged Group's internal processes and procedures and other operational risks could have a negative impact on results and could result in reputational damage*

Operational risks, through inadequate or failed internal processes (including financial reporting and risk monitoring processes) or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Lloyds TSB Group, are present in the Lloyds TSB Group's businesses and will be present in the business of the Enlarged Group. The Lloyds TSB Group's businesses and the HBOS Group's businesses are, and the Enlarged Group's business will be, dependent on their ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Following the Acquisition, the existing internal controls and procedures of the HBOS Group must be integrated with those of the Lloyds TSB Group. This is a complex and time consuming process and there can be no assurance that delays will not occur or that systems weaknesses or inadequacies will be uncovered. Any weakness in such internal control systems and processes could have a negative impact on their results during the affected period. Furthermore, damage to the Lloyds TSB Group's or the Enlarged Group's reputation (including to customer confidence) arising from inadequacies, weaknesses or failures in such systems could have a significant adverse impact on the Lloyds TSB Group's and Enlarged Group's businesses. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or any relevant company within the Lloyds TSB Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA (as the case may be).

*1.12 The Lloyds TSB Group relies, and the Enlarged Group will rely, in part on retail deposits to fund lending activities, the ongoing availability of which is sensitive to factors outside the Lloyds TSB Group's control. Loss in consumer confidence could result in high levels of withdrawals, which could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations and could, in extreme circumstances, prevent the Lloyds TSB Group or the Enlarged Group from meeting its minimum liquidity requirements*

Medium-term growth in the Lloyds TSB Group's and the Enlarged Group's lending activities will depend, in part, on the availability of retail funding on appropriate terms, for which there is increasing competition. This reliance has increased in the recent past given the difficulties in accessing wholesale funding. Increases in the cost of such funding will impact on the Lloyds TSB Group's and the Enlarged Group's margins and affect profit, and a lack of availability of such retail deposit funding could impact on the Lloyds TSB Group's and the Enlarged Group's future growth.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Lloyds TSB Group's and the Enlarged Group's control, such as general economic conditions and the confidence of retail depositors in the economy in general and the financial services industry specifically and the availability and extent of deposit guarantees. These factors could lead to a reduction in the Lloyds TSB Group's and the Enlarged Group's ability to access retail deposit funding on appropriate terms in the future. If the current difficulties in the wholesale funding markets are not resolved or central bank lending to financial institutions is withdrawn it is likely that wholesale funding will prove even more difficult to obtain.

Any loss in consumer confidence in the banking businesses of the Lloyds TSB Group or the Enlarged Group could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Lloyds TSB Group or the Enlarged Group experience an unusually high level of withdrawals, this may have an adverse effect on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations and could, in extreme circumstances, prevent the Lloyds TSB Group or the Enlarged Group from

meeting its minimum liquidity requirements. In such extreme circumstances the Lloyds TSB Group and/or the Enlarged Group may not be in a position to continue to operate without additional funding support, which it may be unable to access.

*1.13 Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a negative impact on the business and results of the Lloyds TSB Group and the Enlarged Group*

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

*1.14 The Lloyds TSB Group has agreed to certain undertakings in relation to the operation of its business in the Placing and Open Offer Agreement. The implications and details of some of these undertakings remain unclear and they could have a material adverse effect on the operations of the Lloyds TSB Group and the Enlarged Group*

Under the terms of the Placing and Open Offer Agreement, the Lloyds TSB Group has provided certain undertakings aimed at ensuring that the potential acquisition by HM Treasury of Lloyds TSB Shares and the Lloyds TSB Group's participation in the guarantee scheme promoted by HM Treasury as part of its support for the banking industry is consistent with the State Aid Approval. The state aid rules aim to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. It is Lloyds TSB's understanding that the undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings, which are consistent with the Lloyds TSB Group's existing focus in its relevant lines of business, include (i) supporting UK Government policy in relation to mortgage lending and lending to SMEs through 2011; (ii) regulating management remuneration; (iii) regulating the rate of growth of the Lloyds TSB Group's balance sheet; and (iv) requiring the presentation to HM Treasury of a restructuring plan within six months (as all banks participating in HM Treasury's recapitalisation and guarantee schemes are required to do). There is a risk that these undertakings or any further requirements introduced by HM Treasury could have a materially adverse effect on the operations of the Lloyds TSB Group and the Enlarged Group. For a description of these undertakings, see Part V ("*Conditions Relating to the Proposed Government Funding*") of the Circular which is incorporated by reference into this document. In addition, pursuant to the conditions attaching to the Proposed Government Funding, the Lloyds TSB Board is required to consult with HM Treasury in relation to the appointment of two new independent directors.

Through its shareholding, the UK Government may seek to influence Lloyds TSB or the Enlarged Group in other ways that would have a materially adverse effect on the Lloyds TSB Group's and the Enlarged Group's business.

HM Treasury has agreed to consult with Lloyds TSB with a view to applying to the European Commission to have the undertakings referred to above disapplied where (i) the Lloyds TSB Group is no longer participating in the guarantee scheme and (ii) HM Treasury either does not acquire shares in the Lloyds TSB Group or HM Treasury has substantively reduced its holding of Lloyds TSB Shares and/or preference shares.

*1.15 The Lloyds TSB Group's businesses are, and the Enlarged Group's business will be, subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant negative impact on the Lloyds TSB Group's and the Enlarged Group's operating results, financial condition and prospects*

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

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

- the monetary, interest rate and other policies of central banks and regulatory authorities;

- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Lloyds TSB Group and the Enlarged Group operate, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- other general changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to those applied by the Lloyds TSB Group or the HBOS Group historically;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Lloyds TSB Group's and the Enlarged Group's products and services.

In addition, in the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. In the United Kingdom, the Competition Commission, the Financial Services Authority and the Office of Fair Trading are carrying out several inquiries, which are referred to in the "*Lloyds TSB Group - Regulation and Supervision in the United Kingdom*" and "*Lloyds TSB Group – Legal actions*" sections of this document. In recent years there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of personal pensions and the sale of mortgage related endowments. There may be further inquiries in the future which could lead to further regulatory intervention.

For example, in clearing the Acquisition without a reference to the Competition Commission the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. He said that he is asking the OFT to keep relevant markets under review in order to protect the interests of UK consumers and the British economy. It is too soon to tell what form, or implications for the Enlarged Group, those reviews might have. The UK Government, the FSA or other regulators, in the United Kingdom or overseas, may intervene further in relation to the areas of industry risk already identified, or in new areas, which could adversely affect the Lloyds TSB Group and the Enlarged Group.

*1.16 In the United Kingdom, the Lloyds TSB Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers*

In the United Kingdom, the FSCS was established under FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Lloyds TSB Group and, it is expected, the Enlarged Group. The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions involving the FSCS are expected to result in a significant increase in the levies made by the FSCS on the industry. Lloyds TSB anticipates making a provision of approximately £120 million in its 2008 accounts in respect of its current obligation for the estimated interest cost on the FSCS borrowings. Going forward further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and if necessary the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Lloyds TSB Group and/or the Enlarged Group may have a material impact on its results of operations and financial condition.

*1.17 The Lloyds TSB 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 negative impact on its results or its relations with its customers. This will also be true of the Enlarged Group*

The Lloyds TSB Group is, and the Enlarged Group will be, exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of the Lloyds TSB Group's and the Enlarged Group's business may be determined by the authorities, the Financial Ombudsman Service (FOS) or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of FOS, with what is fair and reasonable in the Ombudsman's opinion. For more information on additional constraints that may be imposed as a result of the State Aid Approval, see also the risk factor numbered 1.14;
- the possibility of alleged misselling of financial products which, as a result, may require additional provisions;
- contractual obligations may either not be enforceable as intended or may be enforced against the Lloyds TSB Group and the Enlarged Group in an adverse way;
- the intellectual property of the Lloyds TSB Group and the Enlarged Group (such as trade names) may not be adequately protected; and
- the Lloyds TSB Group and the Enlarged Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Lloyds TSB Group faces and the Enlarged Group will face risk where legal or regulatory proceedings or FOS or other complaints are brought against it in the UK High Court or elsewhere, or in jurisdictions outside the UK, including other European countries and the United States. A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. See the section "*Lloyds TSB Group – Legal actions – Office of Foreign Assets Control*" in this document. The outcome of any proceeding or complaint is inherently uncertain and could have a material adverse effect on the Lloyds TSB Group's and the Enlarged Group's operations and/or financial condition, particularly if extended more broadly.

Failure to manage these risks adequately could impact the Lloyds TSB Group and the Enlarged Group adversely, both financially and reputationally through an adverse impact on the Lloyds TSB brand.

#### *1.18 The Lloyds TSB Group is, and the Enlarged Group will be, exposed to tax risk*

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges or financial loss. Failure to manage this risk adequately could impact the Lloyds TSB Group and the Enlarged Group materially and adversely.

#### *1.19 The Lloyds TSB Group's businesses are conducted in highly competitive environments. Achieving an appropriate return for shareholders depends upon management's ability to respond effectively to competitive pressures. This will also be true for the Enlarged Group*

The markets for UK financial services and the other markets within which the Lloyds TSB Group operates, and the Enlarged Group will operate, are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. If financial markets remain unstable, financial institution consolidation may accelerate. Moreover, government intervention in the banking sector may impact the competitive position of banks within a country and among international competitors which may be subject to different forms of government intervention, thus potentially putting the Lloyds TSB Group and the Enlarged Group at a competitive disadvantage to local banks in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Lloyds TSB Group's and the Enlarged Group's ability to generate an appropriate return for its shareholders depends significantly upon the competitive environment and management's response to it.

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

A key part of the Lloyds TSB Group's strategy involves, and the Enlarged Group's strategy will involve, building strong customer relationships in order to win a bigger share of its customers' financial services spend.

If the Lloyds TSB Group and the Enlarged Group are not successful in retaining and strengthening customer relationships they will not be able to deliver on this strategy, and may lose market share, incur losses on some or all of their activities or fail to attract new and retain existing deposits, which could have a material adverse effect on their business, financial position and results of operations.

*1.20 The Lloyds TSB Group and the Enlarged Group could fail to attract or retain senior management or other key employees*

The Lloyds TSB Group's success depends, and the Enlarged Group's success will depend, on the ability and experience of its senior management. The loss of the services of certain key employees, particularly to competitors, could have a material adverse effect on the Lloyds TSB Group's and/or the Enlarged Group's revenue, profit and financial condition. In addition, as the Enlarged Group's business develops, both in the UK and in other jurisdictions, its future success will depend on its ability to attract and retain highly skilled and qualified personnel, which cannot be guaranteed, particularly in light of the increased regulatory oversight of financial institutions and management compensation arrangements coming under closer scrutiny. In addition, failure to manage trade union relationships effectively may result in disruption to the business and its operations causing potential financial loss. The failure to attract or retain a sufficient number of appropriate personnel could significantly impede the Lloyds TSB Group's and the Enlarged Group's financial plans, growth and other objectives and have a material adverse effect on their business, financial position and results of operations.

## **2. Risks relating to the Acquisition**

*2.1 If the Acquisition does not become Effective, the Lloyds TSB Group will not be able to proceed with the Placing and Open Offer. In that case, the Lloyds TSB Group will be required to raise additional capital in an alternative manner. There is no certainty that it would be able to do so on acceptable terms or at all*

The Placing and Open Offer is conditional on the passing of various resolutions, including those relating to the Acquisition, at the Lloyds TSB General Meeting. It is also conditional on the satisfaction of certain conditions as set out in the Placing and Open Offer Agreement, including that the Scheme has been sanctioned at the Scheme Court Hearing and that the HBOS Placing and Open Offer Agreement has not been terminated. The Acquisition is also conditional on the passing of Resolutions 1 and 3 at the Lloyds TSB General Meeting; the passing of various resolutions at the HBOS General Meeting and the Court Meeting; and all regulatory conditions and consents having been obtained or, in certain circumstances, waived. Accordingly, the Placing and Open Offer and the Acquisition are interconditional. If for some reason the Placing and Open Offer Agreement is terminated or the Acquisition does not become Effective, the Lloyds TSB Group will not be able to proceed with its desired capital raising plan via the Placing and Open Offer. In that event, HM Treasury has stated that it would expect the Lloyds TSB Group to take appropriate action to strengthen its capital position. The FSA has advised the Lloyds TSB Group that if the Acquisition were not to occur, it would require the Lloyds TSB Group to raise £7 billion of additional capital, made up of £5 billion of core Tier 1 equity and £2 billion of Tier 1 instruments. There can be no certainty that the Lloyds TSB Group would be able to successfully raise such capital or as to the terms on which such capital could be raised, including the price and other terms of any participation by HM Treasury in any such capital raising and whether or not such a capital raising would be on a pre-emptive basis. Thus, if the conditions to the Acquisition are not satisfied or waived and the Lloyds TSB Group is not able to proceed with its desired capital raising plan via the Placing and Open Offer, it will be required to renegotiate the terms of either the Acquisition or the Placing and Open Offer or both with HM Treasury and the HBOS Group, and may be required to seek alternate means of raising funding. There can be no assurance as to whether the Lloyds TSB Group would be successful in raising alternative capital or as to the timetable or terms of an alternative capital raising or as to whether any such capital raising would be on a pre-emptive basis. If the Lloyds TSB Group is unable to find alternative sources of capital and sufficiently raise its capital, its business, results of operations and financial condition will suffer, its credit ratings may drop, its cost of funding may increase and it may need to access HM Treasury's recapitalisation fund, if such fund is available. Any of the above may have a material adverse impact on the Lloyds TSB Group share price.

*2.2 The Acquisition is being effected by way of the Scheme and will require the sanction of the Court. There can be no assurance that if the Scheme and resolutions are approved by shareholders, the Court will grant the Court Orders, or seek to impose modifications thereto*

The Acquisition is being effected by means of a scheme of arrangement between HBOS and the Scheme Shareholders under sections 895 to 899 of the Companies Act which requires an application by HBOS to the Court to sanction the Scheme and confirm the reduction and cancellation of HBOS' issued and to be issued ordinary share capital. Before such Court Orders can be sought, the Acquisition requires approval (i) by the Scheme Shareholders at the Court Meeting, (ii) by the HBOS Shareholders of certain resolutions proposed at the HBOS General Meeting and (iii) by Lloyds TSB Shareholders of certain Resolutions proposed at the Lloyds TSB General Meeting. There can be no assurance that if the Scheme and resolutions are approved by shareholders, the Court will grant the Court Orders, or seek to impose modifications thereto.

*2.3 The implementation of the Scheme and the consummation of the Acquisition are conditional upon the Scheme becoming Effective by a set date and are subject to the satisfaction or, if permitted, waiver of certain conditions. There can be no assurance that the Conditions will be satisfied or waived and that the Acquisition will be consummated*

The Acquisition is conditional upon the Scheme becoming Effective by not later than 28 February 2009 (subject to extension of such date by agreement between the HBOS Group and the Lloyds TSB Group in accordance with applicable law and regulation) and Admission of the Open Offer Shares becoming effective not later than 19 January 2009 (subject to extension of such date by agreement between Lloyds TSB and HM Treasury in accordance with applicable law and regulation) and is subject to the satisfaction or, if permitted, waiver of certain conditions prior to such date. The conditions in respect of the Scheme are set out in Appendix I to the Announcement and are incorporated by reference into this document. There can be no assurance that these conditions will be satisfied or waived. In addition, there can be no assurance that the Scheme or the Acquisition will become Effective as currently contemplated or at all.

*2.4 Obtaining required regulatory approvals may delay implementation of the Scheme and consummation of the Acquisition, and compliance with conditions and obligations in connection with regulatory approvals could adversely affect prospects for the Acquisition*

The Acquisition is conditional upon obtaining merger control approvals and regulatory clearances from the FSA as well as certain other regulatory bodies in other jurisdictions.

In addition, the Acquisition is conditional upon (i) Lloyds TSB being satisfied, on terms satisfactory to it, that there is no intention by the Secretary of State to refer the Acquisition, or any matters arising from or relating to the proposal, to the Competition Commission, and (ii) if clause (i) is satisfied, either the deadline for making an application for review related to that decision having expired or that, in the event such application is made, any such application having been dismissed by the Competition Appeal Tribunal.

Following the original announcement of the Acquisition of the HBOS Group by the Lloyds TSB Group on 18 September 2008, the Secretary of State issued an intervention notice in relation to the Acquisition on public interest grounds to ensure appropriate consideration would be given, in the context of decisions under the Enterprise Act 2002 (the **Enterprise Act**) on whether to refer the merger to the Competition Commission, to the public interest in the stability of the UK financial system under section 42 of the Enterprise Act, following advice from the UK Tripartite Authorities (HM Treasury, Bank of England and the FSA). As a result of that notice and of a Parliamentary Order, the Secretary of State had the power to consider the public interest issues in the stability of the UK financial system alongside competition issues in making his decision on whether to refer the Acquisition to the Competition Commission for investigation.

On 31 October 2008 the Secretary of State gave his decision that, considering the competition issues identified by the OFT and the evidence before him on the public interest issues in the stability of the UK financial system, the Acquisition is in the public interest and should be cleared unconditionally.

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

The integration of the HBOS Group into the Lloyds TSB Group will be complex, expensive and present a number of challenges for the management of the Lloyds TSB Group, its staff and potentially its customers. The Lloyds TSB Group believes that the anticipated cost synergies as well as other operating efficiencies and the business growth opportunities, revenue benefits and other benefits it expects to achieve by combining its

operations with those of the HBOS Group constitute a large part of the business rationale for the Acquisition. However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and other benefits may not develop, including because the assumptions upon which the Lloyds TSB Group determined the Acquisition consideration may prove to be incorrect. For example, the expected cost synergies have been calculated by the Lloyds TSB Group on the basis of the existing and projected cost and operating structures of the Lloyds TSB Group and the Lloyds TSB Group's estimate of the existing and projected cost and operating structures of the HBOS Group. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

The Lloyds TSB Group may also face challenges with respect to: obtaining the required approvals of various regulatory agencies, any of which could refuse or impose conditions or restrictions on its approval; retaining key employees (including key employees of the HBOS Group); redeploying resources in different areas of operations to improve efficiency; unifying financial reporting and internal control procedures; minimising the diversion of management attention from ongoing business concerns; overcoming integration challenges, particularly as the Lloyds TSB Group's management may be unfamiliar with some aspects of the HBOS Group's business and operations; and addressing possible differences between the Lloyds TSB Group's business culture, processes, controls, procedures, systems, accounting practices and implementation of accounting standards and those of the HBOS Group.

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

#### *2.6 Consummation of the Acquisition may result in adverse tax consequences resulting from a change of ownership*

The consummation of the Acquisition may result in adverse tax consequences related to the change of ownership of HBOS and its subsidiaries. A change of ownership of a corporation can lead to restrictions on the ability to utilise certain tax reliefs, including, but not limited to, tax losses. It can also lead to certain tax charges arising as a result of parties becoming connected with each other for tax purposes, such as credits related to loan relationships between the parties. Moreover, a change of ownership may result in other tax costs not normally associated with the ordinary course of business. Such other tax costs may include, but are not limited to, stamp duties, land transfer taxes, franchise taxes and other levies.

Furthermore, similar consequences could apply in relation to the Lloyds TSB Group and its subsidiaries if over a three year-period HM Treasury, alone or together with any other shareholders with a stake of 5 per cent. or more in the Lloyds TSB Group, acquires a controlling shareholding.

#### *2.7 Change of control provisions or termination rights in the HBOS Group's agreements may be triggered upon the completion of the Acquisition or upon the completion of any resulting reorganisation and may lead to adverse consequences for the Enlarged Group, including the loss of significant contractual rights and benefits, the termination of joint venture and/or licensing agreements*

Members of the HBOS Group are party to joint ventures, licenses and other agreements and instruments that may contain change of control provisions or termination rights that will be triggered upon the completion of the Acquisition or upon completion of the reorganisation of HBOS within the Lloyds TSB Group. While the Lloyds TSB Group does not anticipate any material issues, the operation of such change of control provisions or termination rights, if any, could result in the loss of material contractual rights and benefits, the termination of joint venture agreements and licensing agreements or the requirement to repay outstanding indebtedness.

### **3. Risks relating to the Placing and Open Offer and to investment in Lloyds TSB Shares**

*3.1 HM Treasury will become the largest shareholder of the Enlarged Group if existing Lloyds TSB and HBOS Shareholders do not acquire a significant number of the new Open Offer Shares and the HBOS Open Offer Shares, respectively*

Under the Placing and the HBOS Placing, HM Treasury will acquire the Open Offer Shares and the HBOS Open Offer Shares, respectively, subject to the right of eligible existing shareholders to claw back their proportionate entitlement to Open Offer Shares and HBOS Open Offer Shares through the Open Offer and the HBOS Open Offer respectively and to apply for new Open Offer Shares in excess of their respective entitlements. If eligible existing Lloyds TSB Shareholders do not acquire new shares in the Open Offer and eligible existing HBOS Shareholders do not acquire new HBOS Ordinary Shares in the HBOS Open Offer, HM Treasury would own up to 43.5 per cent. of the Enlarged Group Ordinary Share Capital. This percentage will be diminished to the extent of the participation by eligible existing shareholders in the Open Offer or the HBOS Open Offer. Details of the conditions to the Proposed Government Funding are set out in Part V ("*Conditions Relating to the Proposed Government Funding*") of the Circular, which is incorporated by reference into this document. Subject to this, HM Treasury has informed the Lloyds TSB Group that it currently has no intentions or strategic plans concerning the Enlarged Group or its business and employees. HM Treasury has also informed the Lloyds TSB Group that it does not currently intend to seek to exert significant influence over financial management or operational matters. It might, however, change its views on whether it will seek to exert influence over the Lloyds TSB Group or the Enlarged Group, and may disagree with the commercial decisions of the Lloyds TSB Group, including over such matters as the implementation of synergies and commercial and consumer lending policies.

Moreover, arrangements have been announced by HM Treasury in relation to its equity participation in banks accessing the recapitalisation fund which may limit the operational flexibility of the Lloyds TSB Group and the Enlarged Group with regard to matters such as mortgage and small business lending.

Should HM Treasury decide to seek to exert influence over the Lloyds TSB Group or the Enlarged Group, it may be able to exercise a significant degree of influence over, among other things, the election of directors, the appointment of senior management and, subject to the terms of the bank recapitalisation scheme, the payment of any dividends on the Lloyds TSB Shares. Furthermore, if HM Treasury becomes a major shareholder, HM Treasury's interests might conflict with those of minority shareholders, and HM Treasury may have the ability to prevent or cause a change in control and could take other actions that may not be favourable to minority shareholders. However, the Lloyds TSB Group expects that HM Treasury will, in accordance with its public statements, act as a value-oriented shareholder.

Finally, HM Treasury has confirmed its intention over time, to dispose of its investment in Lloyds TSB Shares and the Enlarged Group. Any such sale, or the perception that such a sale might occur, could adversely affect the market price of the Lloyds TSB Shares.

Depending on the level of the shareholdings acquired by the UK Government in the Lloyds TSB Group, the Enlarged Group and other financial institutions, further filings may have to be made to UK and non-UK competition and regulatory authorities. The nature and extent of those filings and the risks of conditions being sought by or imposed upon the UK Government in relation to its shareholdings cannot be reasonably estimated at this point.

*3.2 Under the BSP Act, HM Treasury is able to effect transfers of Lloyds TSB Shares or HBOS Shares and/or any property of the Lloyds TSB Group or the HBOS Group, or effect other transactions which could impact on the rights of Lloyds TSB Shareholders and/or HBOS Shareholders, and/or result in the de-listing of the Lloyds TSB Shares and/or the HBOS Shares*

Under the BSP Act, until 21 February 2009, HM Treasury has wide powers to make certain orders in respect of a UK authorised deposit-taking institution (such as Lloyds TSB Bank plc and the HBOS Group) and, in certain circumstances, certain corporate-related undertakings. The orders which may be made under the BSP Act in respect of relevant deposit-taking institutions (and/or, in certain circumstances, certain related corporate undertakings) relate to (among other things) (i) transfers of securities issued by relevant entities (such as the Lloyds TSB Shares, the Open Offer Shares and the Consideration Shares) (and/or securing that rights of holders of securities cease to be exercisable by such holders, discontinuing the listing of securities and/or varying or nullifying the terms of securities), (ii) transfers of property, rights and liabilities of relevant entities notwithstanding any restrictions, requirements or interest (and/or modifying related interests, rights or liabilities of third parties), (iii) the disapplication or modification of laws, (iv) the imposition of a moratorium on the commencement or continuation of any legal process in relation to any body or property and/or (v) the dissolution of any relevant entity. Significantly, orders may have retrospective effect and may make provision for nullifying the effect of transactions or events taking place after the time in question.

While certain orders under the BSP Act may be made by HM Treasury only in certain circumstances for the purposes of maintaining the stability of the UK financial system and/or protecting the public interest where

financial assistance has been provided by HM Treasury to the deposit-taking institution, such purpose conditions may not apply in respect of all orders which may be made under the BSP Act. The BSP Act includes provisions related to compensation in respect of any transfer orders made.

If HM Treasury were to make an order in respect of Lloyds TSB Bank plc and/or certain related corporate undertakings, such order may (among other things) (i) result in a transfer of shares in Lloyds TSB Bank plc and/or any property of Lloyds TSB Bank plc, or shares in UK authorised deposit-takers within the HBOS Group and/or any property of such HBOS Group entities, (ii) impact on the rights of Lloyds TSB Shareholders and/or HBOS Shareholders, and/or (iii) result in the de-listing of the Lloyds TSB Shares and/or the HBOS Shares. At present, HM Treasury has not made any orders under the BSP Act in respect of Lloyds TSB Bank plc or HBOS or any of their respective related corporate undertakings and there has been no indication that it will make any such order under the BSP Act, but there can be no assurance that this will not change and/or that Lloyds TSB Shareholders will not be adversely affected by any such order if made.

A draft Banking Bill was introduced to the United Kingdom parliament on 7 October 2008. If enacted, the Banking Bill may have significant consequences for the UK banking industry. For example, it is currently anticipated that a new "Special Resolutions Regime" will be implemented which will give wide powers in respect of UK authorised deposit-taking institutions (such as the Issuer) to HM Treasury, the FSA and the Bank of England in circumstances where any such UK-authorized deposit-taking institution has encountered, or is likely to encounter, financial difficulties. It is also anticipated that a new administration and insolvency regime will be implemented in respect of UK-authorized deposit-taking institutions (such as the Issuer). However, given that the Banking Bill is at an early stage in the legislative process, currently it is not possible to predict with any certainty what form any legislation (if enacted) will take and the impact it will have on the Issuer and the impact it will have (if any) on the Lloyds TSB Shareholders.

Further information relating to the BSP Act and the proposed Banking Bill is set out in the section entitled "*Lloyds TSB Group – Regulation and Supervision in the United Kingdom*".

### *3.3 Lloyds TSB will not be able to pay cash dividends until it has repurchased or redeemed the Enlarged Group HMT Preference Shares*

No dividends may be paid on the Lloyds TSB Shares until the Enlarged Group HMT Preference Shares have been repurchased or redeemed in full. The Enlarged Group HMT Preference Shares will not by their terms be redeemable for a period of five years after their issue. Although it is the Lloyds TSB Group's clear intention to seek their earlier repurchase in 2009 with the consent of the holders of the Enlarged Group HMT Preference Shares, such consent might not be forthcoming and there is no guarantee that the Lloyds TSB Group will be in a position to do so at such time. Even after repayment of the Enlarged Group HMT Preference Shares, the ability of Lloyds TSB to pay dividends in cash or otherwise on Lloyds TSB Shares is a function of its profitability and the extent to which, as a matter of law, it has available to it sufficient distributable reserves out of which any proposed dividend may be paid. Lloyds TSB's ability to pay dividends is also dependent upon receipt by it of dividends and other distributions from subsidiaries. Further, the Lloyds TSB Directors may not consider it appropriate to declare dividends in the context of prolonged economic uncertainty. Lloyds TSB can give no assurances that it will be able to pay a dividend in the future.

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

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

Subsequent to a failure by the Issuer to make a payment in respect of one or more Series of Covered Bonds, the Bond Trustee may serve an Issuer Acceleration Notice, but is not obliged to, unless and until requested or directed by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders in accordance with Condition 9(a). Following service of an Issuer Acceleration Notice on the Issuer, a Notice to Pay will be served by the Bond Trustee on the LLP. Following service of a Notice to Pay on the LLP, under the terms of the Covered Bond Guarantee the LLP will be obliged to pay Guaranteed Amounts as and when the same are Due for Payment. In these circumstances, the LLP will not be obliged to pay any other amounts which become payable for any other reason.

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

respect of the Covered Bonds. In addition, the LLP will not be obliged at any time to make any payments in respect of additional amounts which may become payable by the Issuer under Condition 7.

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

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

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

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

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

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

For so long as the Covered Bonds are rated by Moody's, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to the Security Trustee of the proposed percentage (used in the computation of the Adjusted Aggregate Loan Amount and the Asset Percentage) selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology. However there is no obligation on the LLP to ensure that an Aaa rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with such level of credit enhancement. If the LLP does not send further notification to Moody's and the Security Trustee, the Asset Percentage may not be reduced and may be insufficient to ensure the maintenance of an Aaa rating by Moody's and the Covered Bonds may be downgraded, without resulting in a breach of the Asset Coverage Test. An Issuer Event of Default and/or an LLP Event of Default will not occur solely as a result of a downgrade of the Covered Bonds.

### **Maintenance of Portfolio**

*Asset Coverage Test:* The Asset Coverage Test is met if the Adjusted Aggregate Loan Amount is equal to or exceeds the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds from time

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following a breach of (i) the Pre-Maturity Liquidity Test; and/or (ii) service of an Asset Coverage Test Breach Notice which remains outstanding or (iii) a Notice to Pay (but in each case prior to the service of a LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the LLP will be obliged to sell Selected Loans and their Related Security to third party purchasers, subject to a right of pre-emption in favour of the Seller pursuant to the terms of the LLP Deed (see *Summary of the Principal Documents – LLP Deed – Method of Sale of Selected Loans*). In respect of any sale of Selected Loans and their Related Security to third parties, however, the LLP will not be permitted to give representations and warranties or indemnities in respect of those Selected Loans and their Related Security (unless expressly permitted to do so by the Security Trustee acting on the instructions of the Bond Trustee, itself acting on advice of a financial or other adviser (selected or approved by it) opining or confirming that the provision of any such warranties and/or indemnities is appropriate in the circumstances and in accordance with market practice and neither the Security Trustee nor the Bond Trustee shall have any liability or be liable to any other person for acting upon such advice, opinion or confirmation). There is no assurance that the Seller would give any representations and warranties or indemnities in respect of the Selected Loans and their Related Security. Any Representations and Warranties previously given by the Seller in respect of the Loans in the Portfolio may not have value for a third party purchaser if the Seller is then insolvent. Accordingly, there is a risk that the realisable value of the Selected Loans and their Related Security could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee.

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

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

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

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

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

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

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

### **Defaults Risks Relating to Buy-To-Let Properties in the Portfolio**

Buy-to-let loans are included in the Portfolio. Buy-to-let loans are loans where the relevant Properties are not owner-occupied and may be let by the relevant Borrower to tenants. The Borrower's ability to service payment obligations in respect of such Loans is likely to depend on the Borrower's ability to lease the relevant Properties

on appropriate terms. However, there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Loan is acquired by the LLP or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income achievable from such tenancy will be sufficient (or that there will not be any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Loan. This dependency on leasing income may increase the likelihood during difficult market conditions that the rate of delinquencies and losses on buy-to let mortgages will be higher than for owner-occupied mortgages.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of the Property in which case the Servicer will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage and a sale of the Property.

However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. Under Scots law, a receiver cannot be appointed under a fixed charge (such as a Scottish Mortgage) and accordingly all enforcement procedures, including collection of rents, must be undertaken by the mortgagee (termed under Scots law the "heritable creditor") in its own name and thereafter (as in England and Wales) applied in payment of sums due under the relevant Scottish Mortgage.

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

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

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

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

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

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

The sale by the Seller to the LLP of English Loans and their Related Security will take effect (subject to the CCA Trust) by way of an equitable assignment. The sale by the Seller to the LLP of Scottish Loans and their Related Security will be given effect by way of Scottish Declarations of Trust under which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the LLP. As a result, legal title to English Loans and Scottish Loans, together with, in each case, their Related Security will remain with the Seller. The LLP, however, will have the right to demand that the Seller transfer to it legal title to the Loans and the

Related Security in the circumstances described in *Summary of the Principal Documents – Mortgage Sale Agreement – Transfer of Title to the Loans to the LLP* and until such right arises the LLP will not give notice of the sale of the Loans and their Related Security to any Borrower or apply to the Land Registry or the Central Land Charges Registry (in relation to the English Loans) to register or record its equitable interest in the English Loans and their Related Security or take any steps to perfect its title to the Scottish Loans and their Related Security.

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

- first, if the Seller wrongly sells a Loan and its Related Security, which has already been assigned to the LLP, to another person and that person acted in good faith and did not have notice of the interests of the LLP in the Loan and its Related Security, then such person might obtain good title to the Loan and its Related Security, free from the interests of the LLP. If this occurred, then the LLP would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the LLP would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the LLP or their respective personnel or agents;
- second, the rights of the LLP may be subject to the rights of the Borrowers against the Seller, such as rights of set-off, which occur in relation to transactions or deposits made between Borrowers and the Seller, and the rights of Borrowers to redeem their mortgages by repaying the Loans directly to the Seller; and
- third, unless the LLP has perfected the assignment or assignation of the Loans (which it is only entitled to do in certain circumstances), the LLP would not be able to enforce any Borrower's obligations under a Loan or Mortgage itself but would have to join the Seller as a party to any legal proceedings.

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

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

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

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

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

to the Borrowers. For instance, set-off rights may occur if the Seller fails to advance to a Borrower a Flexible Loan Drawing when the Borrower is entitled to draw additional amounts under a Flexible Loan.

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

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

The amount of any such claim in respect of a Flexible Loan Drawing will, in many cases, be the cost to the Borrower of finding an alternative source of funds (although, in the case of a Flexible Loan Drawing, in respect of a Scottish Loan, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage or which otherwise were reasonably foreseeable.

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

Further, there may be circumstances in which:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Reliance on Swap Providers**

To provide a hedge against possible variances in the rates of interest payable on the Loans in the Portfolio (which may, for instance, include variable rates of interest, fixed rates of interest or rates of interest which track a base rate) and LIBOR for periodic Sterling deposits, the LLP will enter into an Interest Rate Swap with the Interest Rate Swap Provider in respect of each Series of Covered Bonds under the Interest Rate Swap

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

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

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

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

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

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

outstanding Term Advances and, following service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, under the Covered Bond Guarantee with respect to the Covered Bonds. A Covered Bond Swap Provider may be required, pursuant to the terms of the relevant Covered Bond Swap Agreement, to post collateral with the LLP if the LLP's net exposure to the Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement exceeds a certain threshold level.

### **Change of counterparties**

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

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term, unguaranteed and unsecured ratings ascribed to such party by S&P and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive moneys on behalf of the LLP) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document.

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

### **Limited Liability Partnerships**

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

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

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

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

The LLP has no obligation to pay the Guaranteed Amounts payable under the Covered Bond Guarantee until (A) service of a Notice to Pay on the LLP subsequent to (i) an Asset Coverage Test Breach Notice being served and not revoked within the requisite time period and/or a breach of the Pre-Maturity Test or (ii) the occurrence of an Issuer Event of Default and service by the Bond Trustee on the Issuer of an Issuer Acceleration Notice or (B) if earlier the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The occurrence of an Issuer Event of Default or an Asset Coverage Test Breach Notice being served and not revoked within the requisite time period and/or a breach of the Pre-Maturity Test does not constitute an LLP Event of Default. However, failure by the LLP to pay amounts when Due for Payment under the Covered Bond Guarantee would constitute an LLP Event of Default which would entitle the Bond Trustee to accelerate the obligations of the Issuer under the Covered Bonds (if they have not already become due and payable) and the obligations of the LLP under the Covered Bond Guarantee and the Security Trustee to enforce the Security.

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

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Final Maturity Date (subject to the applicable grace period) and if, following service of a Notice to Pay on the LLP (by no later than the date which falls one Business Day prior to the Extension Determination Date),

payment of the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of such Series of the Covered Bonds is not made in full by the Extension Determination Date, then the payment of such Guaranteed Amounts may be automatically deferred. This will occur (subject to no LLP Acceleration Notice having been served) if the Final Terms for a relevant Series of Covered Bonds (the **relevant Series of Covered Bonds**) provides that such Covered Bonds are subject to an Extended Due for Payment Date.

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

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

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

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

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

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

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

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date;
- the likelihood of timely payment of principal in relation to the Hard Bullet Covered Bonds on the Final Maturity Date; and

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

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Series of Covered Bonds. Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A credit rating may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.

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

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

- (a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to that Rating Agency by any of the LLP, the Issuer, the Bond Trustee and/or the Security Trustee, as applicable (each a **Requesting Party**) and the Rating Agency indicates that it does not consider such confirmation or response necessary in the circumstances,

the Requesting Party shall be entitled to assume that the then current ratings of the Covered Bonds in issue will not be downgraded or withdrawn by such Rating Agency as a result of such step or action.

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

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

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

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

All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will share in the Security granted by the LLP under the Deed of Charge.

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

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

### **Further Issues**

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

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

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

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

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

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

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

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

### **Conflicts of Interest**

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

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

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

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

error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law,

provided further that, in respect of any proposed modification, waiver, authorisation or determination in the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, in the event that the Issuer decides to apply for such registration, prior to the Bond Trustee or the Security Trustee (as the case may be) agreeing to any such modification, waiver, authorisation or determination, the Issuer must send written confirmation to the Bond Trustee:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **General legal investment considerations**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral

for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

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

On 8 October 2008, the UK Government announced the introduction of a new credit guarantee scheme pursuant to which the Government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. The UK Government has indicated that certain debt instruments including UK covered bonds are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Covered Bonds are not guaranteed by the UK Government under the above credit guarantee scheme. In addition, any investment in the Covered Bonds does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.

Further information relating to the Financial Services Compensation Scheme is set out in the section entitled "*Lloyds TSB Group – Regulation and Supervision in the United Kingdom*".

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

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplemental prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including where principal or interest in respect of the Covered Bonds is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets;
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- understand the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Covered Bonds.

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

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

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

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

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

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

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

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

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

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

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

- the market price of such Covered Bonds may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency from that expected or may be subject to withholding or deduction for or on account of any taxes or other charges imposed by relevant governmental authorities or agencies;
- the amount of principal payable at redemption may be less than the nominal amount of any such Covered Bonds or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

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

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

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

Covered Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

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

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

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

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

## **GENERAL RISK FACTORS**

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

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

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

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

### **Liquidation expenses**

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

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

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

In the UK, regulation of residential mortgage business by the FSA under the Financial Services and Markets Act 2000 came into force on 31 October 2004, the date known as N(M). Entering into, arranging or advising in respect of, and administering Regulated Mortgage Contracts, and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

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

The main effects are that, on or after N(M), unless an exclusion or exemption applies: (a) each entity carrying on a specified regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity; and (b) generally and subject to exemptions and exclusions each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation from the FSA. It should be noted that the definition of a "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated by the Consumer Credit Act 1974 (the CCA) or treated as such or unregulated and under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract (or, in the case of failure to comply with the financial promotions requirements, the relevant mortgage loan that is "qualifying credit") or other secured credit in question will be unenforceable against the borrower except with the approval of the court. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

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

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

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

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage

Contract under the FSMA, because of technical rules on: (a) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract"; and (b) changes to credit agreements.

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

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

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

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

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

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

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

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

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

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

In December 2003, the UK Department for Business, Enterprise and Regulatory Reform (the **DBERR**) (formerly known as the Department of Trade and Industry) published a White Paper proposing amendments to the CCA and to secondary legislation made under it. The Consumer Credit Act 2006 (the **CCA 2006**) was enacted on 30 March 2006. As and when implemented, the CCA 2006 updates and augments the CCA.

The "extortionate credit" regime has been replaced by an "unfair relationship" test. The test explicitly imposes liability to repay the borrower on both the originator and any assignee, such as the LLP. In applying the unfair relationship test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However the word "unfair" is not an unfamiliar term in United Kingdom legislation due to the Unfair Contract Terms Act 1977, the Unfair Terms in Consumer Contracts Regulations 1994 and the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA principles for businesses may also be relevant, and apply to the way contract terms are used in practice and not just the way they are drafted. The test initially applied to credit agreements made on or after 6 April 2007, but now applies retrospectively to existing credit agreements made before that date. Once the debtor alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

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

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

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

the CCA or treated as such. A more restrictive formula applies to credit agreements made on or after 31 May 2005, and applies retrospectively to all existing credit agreements from 31 May 2007 to 31 May 2010, depending on their term.

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

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

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

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (the **Consumer Credit Directive**), which provides that, subject to exemptions, loans from €200 up to €75,000 between credit providers and consumers will be regulated. This directive will repeal and replace the first consumer credit directive on, and requires Member States to implement the Consumer Credit Directive by, measures coming into force by, 12 May 2010.

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

Until the final text of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom's implementation of the Consumer Credit Directive are published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White Paper process would have on the Loans, the Seller, the Issuer, the LLP and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Covered Bonds when due and/or on the ability of the LLP to make payments in full on the Covered Bond Guarantee when due.

### **Distance Marketing**

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

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

- the borrower is liable to repay the principal, and any other sums paid by the lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the lender receiving notice of cancellation;

- the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- any security provided in relation to the contract is to be treated as never having had effect.

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

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

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

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

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

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them in October 2001 and in July 2006. Generally, the FSA is responsible for enforcement of the UTCCR in Regulated Mortgage Contracts under the FSMA and other mortgage loans originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

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

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

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

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK's Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair

terms, was published in February 2005. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that: (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer; and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

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

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

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

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

The Unfair Practices Directive requires Member States to implement the Directive by measures coming into force by 12 December 2007. The United Kingdom has implemented the directive by Consumer Protection from Unfair Trading Regulation 2008, which came into force on 26 May 2008. In addition, the FSA has taken the Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

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

### **Financial Ombudsman Service**

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

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

### **General**

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

of the Portfolio or any part thereof and accordingly affect the ability of the LLP to meet its obligations under the Covered Bond Guarantee when due.

### **EU Savings Directive**

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

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

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

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

### **European Monetary Union**

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

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

### **Changes of law**

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

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

The Issuer may apply to the FSA to be admitted to the register of issuers under the RCB Regulations but does not currently intend to apply for the Programme or any Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds under the RCB Regulations such that, if and until the Issuer elects to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds and such application is successful, any Covered Bonds issued under

the Programme will not be regulated covered bonds, irrespective of whether or not the Issuer is admitted to the register of issuers under the RCB Regulations. As at the date of this Prospectus, the Issuer is not so registered or regulated.

The new legislative framework for UK covered bonds contemplated by the RCB Regulations is intended to meet the requirements set out in Directive 85/11/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**) but Covered Bondholders should be aware that these requirements will not be satisfied with regards to the Covered Bonds for so long as the Covered Bonds are not regulated covered bonds and therefore no regulatory benefit associated with the UCITS Directive would be available to Covered Bondholders as a result of holding Covered Bonds.

The FSA may take certain actions in respect of the Issuer and/or the LLP under the RCB Regulations. Such actions include directing the winding-up of the LLP, removing the Issuer from the register of issuers, directing the Issuer and/or the LLP to take specified steps for the purpose of complying with the RCB Regulations and/or imposing a financial penalty of such amount as it considers appropriate in respect of the Issuer or the LLP. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool). There is a risk that any such enforcement actions by the FSA may reduce the amounts available to pay Covered Bondholders.

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

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

#### **Expenses of insolvency officeholders**

Under the RCB Regulations (assuming such regulations apply to the LLP), following the realisation of any asset pool security (excluding circumstances where there is a concurrent winding up of the LLP), certain costs and expenses are payable out of the fixed and floating charge assets of the LLP in priority to the claims of Secured Creditors (including the Covered Bondholders). Such costs and expenses are also payable out of the floating charge assets of the LLP (but it would appear not out of the fixed charge assets) in priority to the claims of Secured Creditors in a winding-up and/or an administration of the LLP. Such costs and expenses include disbursements made by an insolvency officeholder (including an administrative receiver, liquidator or administrator) in respect of costs in relation to certain senior service providers and hedge counterparties and also general expenses incurred in the corresponding insolvency proceedings in respect of the LLP (which could include any corporation tax charges).

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

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

#### **Insolvency Act 2000**

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

LLP). However, on 1 October 2005, the Limited Liability Partnership (Amendment) Regulations 2005 made it clear that the moratorium provisions apply to limited liability partnerships subject to certain modifications.

A "small" company is defined as one which satisfies two or more of the following criteria: (a) its turnover is not more than £5.6 million, (b) its balance sheet total is not more than £2.8 million and (c) the number of employees is not more than 50. The position as to whether or not a company is a "small" company may change from time to time and consequently no assurance can be given that the LLP will not, at any given time, be determined to be a "small" company. The UK Secretary of State for Business, Enterprise and Regulatory Reform (formerly the Secretary of State for Trade and Industry) may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Covered Bondholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (a) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a "capital market arrangement" (as defined in the secondary legislation) under which a party has incurred, or when the agreement was entered into was expected to incur, a debt of at least £10 million and which involves the issue of a "capital market investment" (also defined but generally a rated, listed or traded bond) and (b) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in a foreign currency) of at least £10 million. While the LLP is expected to fall within one of the exceptions there is no guidance as to how the legislation will be interpreted and the Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify the exceptions. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of Covered Bondholders. Correspondingly, if the LLP is determined to be a "small" company and determined not to fall within one of the exceptions, then certain actions against or in respect of the LLP may, for a period, be prohibited by the imposition of a moratorium.

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

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

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

Pursuant to the modifications made by the RCB Regulations to amongst other things the Insolvency Act 1986, upon registration of the Issuer in the register of issuer under RCB Regulations, the provisions set out above in respect of 176A will not apply with respect to the LLP and its floating charge assets. However, the provisions set out above will apply to the LLP prior to such time that the RCB Regulations apply in respect of the LLP.

#### **Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the Covered Bonds**

A framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title *International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)* (the **Framework**). It is anticipated that changes will be made to the Framework following the financial crisis of 2008. The Framework is being implemented in stages: for the EU the Basel II standardised approach and the Foundation IRB approach were implemented from 1 January 2007 and the more advanced IRB approach for credit risk and advanced measurement approach for

operational risks were implemented from 1 January 2008. However, the Framework is not self-implementing and, accordingly, implementation in participating countries is in some cases still in development or has not yet been put into effect. In the UK, Basel II and the EU Capital Requirements Directive have been implemented through the Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) and the Capital Requirements Regulations 2006 (SI 2006/3221), although the most advanced approaches referred to above have only become available from 1 January 2008.

As and when implemented, the Framework (or amendments to it) could affect risk-weighting of the Covered Bonds for investors who are subject to capital adequacy requirements that follow, or are based on, the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures (including in the EEA, the EU Capital Requirements Directive). Predictions cannot be made as to the precise effect of potential changes on the Covered Bonds, the Lloyds TSB Group, any investor or otherwise as a result of implementation of the Framework or of changes to it.

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

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

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

### **Pensions Act 2004**

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

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

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

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

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

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

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

## FORM OF THE COVERED BONDS

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

### **Bearer Covered Bonds**

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

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

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

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

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

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

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

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

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

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

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

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

### **Registered Covered Bonds**

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

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

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

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

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

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4) immediately preceding the due date for payment in the manner provided in that Condition.

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

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

### **Transfer of Interests**

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

### **General**

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

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

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

## FORM OF FINAL TERMS

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

Final Terms dated [Date]

**Lloyds TSB Bank plc**

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

**irrevocably and unconditionally guaranteed as to payment of principal and interest by  
Lloyds TSB Secured Finance LLP  
under the £30 billion  
Global Covered Bond Programme**

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

### PART A — CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated 17 December 2008 [and the supplemental Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.]

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

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [date]]. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Terms and Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [date]] and are attached hereto. Full information on the Issuer, the LLP and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectus(es) dated [date] [and [date]]. The Prospectuses [and the supplemental Prospectus(es)] are available for viewing at [address] [and] [website] and copies may be obtained during normal business hours from Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN.]

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

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

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

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

- European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the [€50,000] minimum denomination is not required.)*
- (ii) Calculation Amount: [●] *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations.)*
7. (i) Issue Date: [●]
- (ii) Interest Commencement Date: [●][specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)*
8. (i) Final Maturity Date: *[Fixed rate – specify date/ Floating rate – Interest Payment Date falling in or nearest to [specify month and year][or such earlier Interest Payment Date on which the Issuer serves a Redemption Notice on the Bond Trustee.]]*
- [For the purposes of this Final Terms, Redemption Notice means such notice served on the Bond Trustee on a day falling not less than two London Business Days prior to the relevant Interest Payment Date on which the Issuer wishes to redeem the Series [●] Covered Bonds.]*
- (ii) Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Covered Bond Guarantee: [Applicable/Not Applicable]
- [Fixed rate – specify date/ Floating rate - Interest Payment Date falling in or nearest to [specify month and year, in each case falling one year after the Final Maturity Date][or, if a Redemption Notice has been served on the Bond Trustee, the Interest Payment Date falling twelve calendar months after the Interest Payment Date specified as the Final Maturity Date in the Redemption Notice]]*
- (N.B. Care must be taken to ensure that if the Covered Bonds are Index Linked or Equity Linked or otherwise involve a computation, in any case by reference to one or more Valuation Dates or Averaging Dates, as the case may be, which may be postponed pursuant to the Terms and Conditions of such Covered Bonds, the Maturity Date is likewise postponed and cannot occur prior to an acceptable period before the last occurring Valuation Date or the Final Averaging Date, as the case may be.)*
- (N.B. Zero Coupon Covered Bonds are not to be issued with an Extended Due for Payment Date unless otherwise agreed with the relevant Dealer and the Bond Trustee.)*
- (N.B. Hard Bullet Covered Bonds are not issued with an Extended Due for Payment Date.)*

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

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

15. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] [[in each year up to and including the Final Maturity Date or the Extended Due for Payment Date, if applicable]/[specify other]]
- (iii) Business Day Convention: [Following Business Day Convention/Modified

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

*Period/each Interest Payment Date*

*N.B. Specify the Interest Determination Date(s) up to and including the Extended Due for Payment Date, if applicable*

- Relevant Screen Page:
- (ix) ISDA Determination:
  - Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
- (x) Margin(s):  +/-  per cent. per annum
- (xi) Minimum Rate of Interest:  per cent. per annum
- (xii) Maximum Rate of Interest:  per cent. per annum
- (xiii) Day Count Fraction:   
[Actual/Actual (ISDA)  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
30E/360 (ISDA)  
Other]  
*(See Condition 4 for alternatives)*  
 [adjusted/not adjusted]
- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:
- 17. **Zero Coupon Covered Bond Provisions**  [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub paragraphs of this paragraph)*
  - (i) [Amortisation/Accrual] Yield:  per cent. per annum
  - (ii) Reference Price:
  - (iii) Any other formula/basis of determining amount payable:
  - (iv) Business Day Convention:   
[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]  
 [adjusted/not adjusted]
  - (v) Business Day(s):   
Additional Business Centre(s):
  - (vi) Day Count Fraction in relation to Early Redemption Amounts and late payment:  [Conditions 4.6 and 6.7(b) apply/specify other]
- 18. **Index Linked Interest Covered Bond and other Variable Interest Covered Bond**  [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub*

<b>(Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds) Provisions</b>	<i>paragraphs of this paragraph)</i> <i>(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Covered Bonds will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)</i>
(i) Index/Formula/currency(ies)/other variable:	[give or annex details]
(ii) Rate of Exchange/method of calculating Rate of Exchange	[●]/[Not Applicable]
(iii) Party responsible for calculating the principal and/or interest due (if not the Principal Paying Agent):	[●]/[Not Applicable]
(iv) Relevant provisions for determining amount of principal and/or interest payable including the Final Redemption Amount, including fall-back provisions	[●]/[Not Applicable]
(v) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]/[Not Applicable]
(vi) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable	[●]/[Not Applicable]
(vii) Interest Determination Date(s):	[●]/[Not Applicable]
(viii) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]/[Not Applicable]
(ix) Interest Period(s):	[●]/[Not Applicable]
(x) Specified Interest Payment Dates:	[●]/[Not Applicable]
(xi) Person at whose option Specified Currency(ies) is/are payable	[●]/[Not Applicable]
(xii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)] [adjusted/not adjusted]
(xiii) Business Centre(s):	[●]
(xiv) Minimum Rate of Interest:	[●] per cent. per annum
(xv) Maximum Rate of Interest:	[●] per cent. per annum
(xvi) Day Count Fraction:	[●]
(xvii) Other terms or special conditions:	[●]

## PROVISIONS RELATING TO REDEMPTION

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

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

- (iv) Exchange: [●]
- (v) Related Exchange(s): [[●]/All Exchanges]
- (vi) Potential Adjustment Events: [Applicable/Not Applicable]
- (vii) De-listing, Merger Event, Nationalisation and Insolvency: [Applicable/Not Applicable]
- (viii) Tender Offer: [Applicable/Not Applicable]
- (ix) Correction of Underlying Equity Prices: Correction of Underlying Equity Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].  
*(If Correction of Underlying Equity Prices does not apply, delete the following sub-paragraph)*
- [Correction Cut-Off Date: [[●] Business Days prior to the Maturity Date.]
- (x) Potential Adjustment Events/Physical Deliver [Insert details]
- (xi) Final Redemption Amount: [Express per Calculation Amount]
- Valuation Date: [●]
- Reference Price: [●] [see (x) above]
- (xii) Valuation Time: [see (x) above]
- (xiii) Strike Price: [●]
- (xiv) Exchange Rate: [Applicable/Not Applicable]  
[Insert details]
- (xv) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition [ ]): [Insert details/Not Applicable]
- (xvi) Trade Date: [●]
- (xvii) Relevant Assets: [●] (further particulars specified below) [Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]
- (xviii) Asset Amount(s): [●] [Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]
- (xix) Cut-off Date: [●] [Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]
- (xx) Final Date: [●]
- (xxi) Delivery provisions for Asset Amount(s) (including details of who is to make such delivery) if different from Terms and Conditions: [●] [Only applicable for Physical Delivery or Cash Settlement and/or Physical Delivery]
- (xxii) Other terms or special conditions: [●]
- (xxiii) Failure to Deliver due to Illiquidity: [Applicable/Not Applicable]  
*(NB: Only applicable to certain types of Equity Linked Redemption Covered Bonds)*
24. **Relevant Assets:** [Applicable/Not Applicable]
- (i) Type and class of Relevant Asset(s): [●]

- (ii) Legislation under which the Relevant Asset(s) has/have been created:
- (iii) Form of the Relevant Asset(s):
- (iv) Currency of the Relevant Asset(s):
- (v) Rights attaching to the Relevant Asset(s):
- (Need to include information relating to dividend rights, voting rights, pre-emption rights in offers for subscription of Relevant Asset(s) of the same class, rights to share in the issuer of the Relevant Asset's/Assets' profits, rights to share in any surplus in the event of liquidation, redemption provisions and conversion provisions, in each case to the extent applicable)*
- (vi) Listing of the Relevant Asset(s):  (specify)/None
- (vii) Description of any restrictions on the free transferability of the Relevant Asset(s):
25. **Additional Disruption Events:**  [Applicable/Not Applicable]
- [Additional Disruption Events are only applicable to certain types of Index Linked Redemption Covered Bonds or Equity Linked Redemption Covered Bonds]*
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- [Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:]*
- [Change in Law]
- [Hedging Disruption]
- [Increased Cost of Hedging]
- [Increased Cost of Stock Borrow]
- [Insolvency Filing]
- (N.B. Only applicable in the case of Equity Linked Redemption Covered Bonds)*
- [Loss of Stock Borrow]
26. **Currency Linked Covered Bonds:**  [Applicable/Not Applicable]
- [Provisions regarding calculations will be set out in the Final Terms]*
27. **Dual Currency Linked Covered Bonds**  [Applicable/Not Applicable]
- [Provisions regarding calculating will be set out in the Final Terms]*
28. **Early Redemption Amount:**
- Early Redemption Amount(s) payable on redemption for (a) taxation reasons or on event of default or other early redemption (b)  per Calculation Amount

in the case of Index Linked Redemption Covered Bonds, following an Index Adjustment Event, as set out in these Final Terms or (c) in the case of Equity Linked Redemption Covered Bonds, following certain corporate events as set out in these Final Terms or (d) in the case of Index Linked Redemption Covered Bonds or Equity Linked Redemption Covered Bonds, following an Additional Disruption Event (if applicable) as set out in these Final Terms, and/or the method of calculating the same (if required or if different from that set out in the Conditions):

#### GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

29. **Form of Covered Bonds:**

[Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds on [●] days' notice/at any time/only upon an Exchange Event]

[Temporary Global Covered Bond exchangeable for Definitive Covered Bonds on [●] days' notice]

[Permanent Global Covered Bond exchangeable for Definitive Covered Bonds on [●] days' notice/at any time/only upon an Exchange Event]

*(N.B. The exchange upon notice/at any time should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].")*

[Registered Covered Bonds - [Restricted/Unrestricted] Global Certificate[s]] - [DTC]/[Euroclear/Clearstream]

[Regulation S Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of the common depository for [DTC or its nominee/Euroclear and Clearstream, Luxembourg]/Rule 144A Global Covered Bond (U.S.\$[●] nominal amount) registered in the name of [DTC or its nominee/the common depository for Euroclear and Clearstream, Luxembourg]

*[(N.B. Where multiple denominations above €50,000 or equivalent are being used, the following sample wording should be followed: €50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Covered Bonds in definitive form will be issued with a denomination above [€99,000].)]*

30. **New Global Covered Bond:**

[Yes][No]

31. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 16(iv) and 18(xiii) relate]
32. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): [Yes/No. If yes, give details]
33. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Bank to forfeit the Covered Bonds and interest due on late payment: [Not Applicable/give details]
34. Details relating to Instalment Covered Bonds: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
35. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to these Final Terms apply]
36. Consolidation provisions: [Not Applicable/The provisions in [Condition [ ] ] annexed to these Final Terms] apply]
37. Additional U.S. Federal Tax Considerations: [Not Applicable/give details]
38. Other final terms: [Not Applicable/give details]
- (When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

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

## [LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required for issue and admission to trading of the Covered Bonds described herein pursuant to the £30,000,000,000 Global Covered Bond Programme of Lloyds TSB Bank plc.

## RESPONSIBILITY

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

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

Signed on behalf of Lloyds TSB Bank plc

Signed on behalf of Lloyds TSB Secured Finance  
LLP

By:

*Duly authorised*

By:

*Duly authorised*

## PART B — OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: [Application [has been] [is expected to be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to [specify relevant listing on an official list (for example, the Official List of the UK Listing Authority)] and to trading on [specify relevant regulated market (for example the London Stock Exchange's regulated market) with effect from [ ]].[Not Applicable].]
- (ii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

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

### 3. COVERED BOND SWAP:

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

### 4. NOTIFICATION

*The United Kingdom Financial Services Authority [has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]*

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

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement: "Save as discussed in ["Subscription and Sale and Transfer and Selling Restrictions"], so far as the Issuer and LLP are aware, no person involved in the offer of the Covered Bonds has an interest material to the offer."]

### 6. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: [●]  
*(See Use of Proceeds wording in Prospectus — if reasons for offer different from "Use of Proceeds" provision [●] will need to include those reasons here.)*

- (ii) [Estimated net proceeds: [●]
- (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
- (If the Covered Bonds are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) below where disclosure is included at (i) above).*
- (iii) [Estimated total expenses: [●]]
- [Include breakdown of expenses.]*
- (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*
- 7. [Fixed Rate Covered Bonds only — YIELD [●]**
- Indication of yield: *The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]*
- 8. [Floating Rate Covered Bonds only — HISTORIC INTEREST RATES**
- Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]
- 9. [Index Linked Redemption, Equity Linked Redemption, Currency Linked or other Variable-Interest Covered Bonds only — PERFORMANCE OF INDEX/FORMULA/CURRENCY(IES)/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**
- Need to include details of where past and future performance and volatility of the index/formula/currency(ies)/Underlying Equities/currencies/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]*
- 10. [Dual Currency Linked Covered Bonds Only — PERFORMANCE OF RATE[S] OF EXCHANGE**
- Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]
- 11. OPERATIONAL INFORMATION**
- ISIN Code: [●]
- CUSIP: [●]
- Common Code: [●]
- Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (including the Depository [Not Applicable/give name(s) and number(s) [and address(es)]]

Trust Company) and the relevant identification number(s):

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No].

[Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if "yes" selected in which case the Covered Bonds must be issued in NGCB form]*

## TERMS AND CONDITIONS OF THE COVERED BONDS

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

This Covered Bond is one of a Series (as defined below) of Covered Bonds constituted by a trust deed dated 17 December 2008 (as modified and/or supplemented and/or restated as at the date of issue of the Covered Bonds (the **Issue Date**), the **Trust Deed**) between Lloyds TSB Bank plc (the **Issuer**), Lloyds TSB Secured Finance LLP (the **LLP**) and BNY Corporate Trustee Services Limited as the Bond Trustee and the Security Trustee (the **Bond Trustee** and the **Security Trustee**), which expressions shall include all persons for the time being the bond trustee(s), or security trustee (s) respectively under the Trust Deed and the Deed of Charge (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes (amongst other things) the form of the Bearer Covered Bonds, Receipts, Coupons and Talons referred to below. An Agency Agreement dated 17 December 2008 (as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) has been entered into in relation to the Covered Bonds between the Issuer, the LLP, the Bond Trustee, the Security Trustee, The Bank of New York Luxembourg S.A. as registrar and The Bank of New York Mellon as principal paying agent and the other agents named in it. The principal agent, the paying agents, the registrar, the exchange agents, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Principal Paying Agent**, the **Paying Agents** (which expression shall, where the context so permits, include the Principal Paying Agent), the **Registrar**, the **Exchange Agents**, the **Transfer Agents** (which expression shall, where the context so permits, include the Registrar) and the **Calculation Agent(s)**. Copies of the Trust Deed and the Agency Agreement are available for inspection free of charge during usual business hours at the registered office of the Principal Paying Agent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for

Definitive Covered Bonds. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Definitive Covered Bonds. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Registered Definitive Covered Bonds or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Rule 144A Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or to such successor's nominee.

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

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

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

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

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

(c) *Registration of transfer upon partial redemption*

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

(d) *Costs of registration*

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

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

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

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

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

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

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

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

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

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

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

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

(a) *Status of the Covered Bonds*

The Covered Bonds and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among

themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than any obligations preferred by mandatory provisions of applicable law.

(b) *Status of the Covered Bond Guarantee*

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

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

(c) *Security*

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

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

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

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

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

Except in the case of Covered Bonds in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to: (i) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding (as defined in Condition 4.6 but subject to Condition 4.5) of the Fixed Rate Covered Bonds represented by such Global Covered Bond; (or if they are Partly Paid Covered Bonds, the aggregate amount paid up) or (ii) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount; and in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 4.6), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 4.6) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for each Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

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

(a) **Interest Payment Dates**

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

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

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

(b) **Rate of Interest**

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

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

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

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

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

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

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

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

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

(expressed as a percentage rate per annum) for the Reference Rate(s) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on

the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations.

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

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

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

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

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

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

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

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

- (i) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding (subject to Condition 4.5) of the Covered Bonds represented by such Global Covered Bond (or, if they are Partly Paid Covered Bonds, the aggregate amount paid up); or
- (ii) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds in definitive form, the Calculation Amount,

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

(e) Notification of Rate of Interest and Interest Amounts

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

(f) Determination or Calculation by Bond Trustee

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

(g) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2, whether by the Principal Paying Agent, the Calculation Agent or the Bond Trustee shall (in the absence of wilful default, manifest error, negligence or fraud) be binding on the Issuer, the LLP, the Principal Paying Agent, the Registrar, the Calculation Agent, the other Paying Agents, the Bond Trustee and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default, negligence or fraud) no liability to the Issuer, the LLP, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Registrar, the Calculation Agent or the Bond Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

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

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

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

The Rate of Interest for Equity Linked Interest Covered Bonds for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an index or formula as specified in the applicable Final Terms.

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

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

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

#### 4.3 *Interest on Partly-Paid Covered Bonds*

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

#### 4.4 *Interest following a Notice to Pay*

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

#### 4.5 *Accrual of interest*

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

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

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

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

(b) If a **Business Day Convention** is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above,

shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
  - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
  - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
    - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 4.6(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
    - (B) in the case of Covered Bonds where the Accrual Period is longer than one Determination Period, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
  - (ii) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
  - (iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
  - (iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
  - (v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
  - (vi) if **30/360**, **360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

360

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

#### 4.7 *Other Calculations*

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

## 5. **Payments**

### 5.1. *Method of payment*

Subject as provided below:

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

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

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

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

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

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

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds) (as defined below) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

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

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

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

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

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

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

5.4. *Payments in respect of Registered Covered Bonds*

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

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

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

commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond in respect of Covered Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar (i) to an account specified in accordance with Condition 5.1 identified to DTC by a participant in DTC in respect of its holding of such Covered Bonds, or (ii) to an account in the relevant Specified Currency of the Exchange Agent for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the LLP, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

5.5. *General provisions applicable to payments*

The holder of a Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the obligations of the Issuer or the LLP will be discharged by payment to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or the LLP to, or to the order of, the holder of such Global Covered Bond (or the Bond Trustee, as the case may be). No person other than the holder of the relevant Global Covered Bond (or, as provided in the Trust Deed, the Bond Trustee) shall have any claim against the Issuer or the LLP in respect of any payments due on that Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, payments of principal and/or interest in respect of Bearer Covered Bonds in U.S. Dollars will only be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest on the Bearer Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the LLP, adverse tax consequences to the Issuer or the LLP.

5.6. *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 8 (*Prescription*)) is:

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

principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre) or as otherwise specified in the applicable Final Terms or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

- (c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

#### 5.7. *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds but excluding any amount of interest referred to therein;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.7);
- (g) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (h) any Excess Proceeds which may be payable by the Bond Trustee to the LLP in respect of the Covered Bonds.

Any reference in these Terms and Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

#### 5.8. *Definitions*

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

**Established Rate** means the rate for the conversion of the relevant Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty.

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.

**Rate of Interest** means the rate of interest payable from time to time in respect of Fixed Rate Covered Bonds, Floating Rate Covered Bonds and Variable Interest Covered Bonds, as determined in, or as determined in the manner specified in, the applicable Final Terms.

**Treaty** means the Treaty establishing the European Community, as amended.

## 6. **Redemption and Purchase**

### 6.1. *Final redemption*

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond (unless it is an Index Linked Redemption Covered Bond or an Equity Linked Redemption Covered Bond, each of which will be finally redeemed in accordance with Conditions 6.12 and 6.13

respectively) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date.

Without prejudice to Condition 9 (*Events of Default, Acceleration and Enforcement*), if an Extended Due for Payment Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer has failed to pay the Final Redemption Amount on the Final Maturity Date specified in the Final Terms (in each case after the expiry of the grace period set out in Condition 9.1(a)) and following service of a Notice to Pay on the LLP by no later than the date falling one Business Day prior to the Extension Determination Date, the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay the Guaranteed Amounts corresponding to the Final Redemption Amount in full in respect of the relevant Series of Covered Bonds on the date falling on the earlier of (a) the date which falls two Business Days after service of a Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)) and (b) the Extension Determination Date, under the Covered Bond Guarantee, then (subject as provided below) payment of the unpaid portion of the Final Redemption Amount by the LLP under the Covered Bond Guarantee shall be deferred until the Extended Due for Payment Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the earlier of (a) and (b) above will be paid by the LLP to the extent it has sufficient moneys available under the Guarantee Priority of Payments on any Interest Payment Date thereafter up to (and including) the relevant Extended Due for Payment Date.

The LLP shall notify the relevant Covered Bondholders (in accordance with Condition 13 (*Notices*)), the Rating Agencies, the Bond Trustee, the Security Trustee, the Principal Paying Agent and (in the case of Registered Covered Bonds) the Registrar as soon as reasonably practicable and in any event at least one Business Day prior to the date specified in (a) or (b) of the preceding paragraph (as appropriate) of any inability of the LLP to pay in full the Guaranteed Amounts corresponding to the Final Redemption Amount in respect of a Series of Covered Bonds pursuant to the Covered Bond Guarantee. Any failure by the LLP to notify such parties shall not affect the validity or effectiveness of the extension nor shall any rights accrue to any of them by virtue thereof.

In the circumstances outlined above, the LLP shall on the earlier of (a) the date falling two Business Days after service of a Notice to Pay or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in Condition 9.2(a)), and (b) the Extension Determination Date, under the Covered Bond Guarantee, apply the moneys (if any) available (after paying or providing for payment of higher ranking or *pari passu* amounts in accordance with the Guarantee Priority of Payments) *pro rata* in part payment of an amount equal to the Final Redemption Amount of each Covered Bond of the relevant Series of Covered Bonds and shall pay Guaranteed Amounts constituting the corresponding part of Scheduled Interest in respect of each such Covered Bond on such date. The obligation of the LLP to pay any amounts in respect of the balance of the Final Redemption Amount not so paid shall be deferred as described above. Such failure to pay by the LLP shall not constitute an LLP Event of Default.

Any discharge of the obligations of the Issuer as the result of the payment of Excess Proceeds to the Bond Trustee shall be disregarded for the purposes of determining the liabilities of the LLP under the Covered Bond Guarantee in connection with this Condition 6.1.

## 6.2. *Redemption for taxation reasons*

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the relevant Covered Bond is a Fixed Rate Covered Bond or a non-interest bearing Covered Bond) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bond or a Variable Interest Covered Bond or any other interest bearing Covered Bond other than a Fixed Rate Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Bond Trustee and, in accordance with Condition 13 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that on the occasion of the next date for payment of interest on the relevant Covered Bonds, that the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*). Covered Bonds redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.7 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3. *Redemption at the option of the Issuer (Issuer Call)*

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than five nor more than 30 days' notice (or such other period of notice as may be specified in the applicable Final Terms, which in the case of Covered Bonds that clear through DTC should not be less than 30 days nor more than 60 days) to the Bond Trustee, the Principal Paying Agent, the Registrar (in the case of the redemption of Registered Covered Bonds) and, in accordance with Condition 13 (*Notices*), the Covered Bondholders (which notice shall be irrevocable) redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). The Issuer shall be bound to redeem the Covered Bonds on the date specified in the notice. In the event of a redemption of some only of the Covered Bonds, such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount (if any) as specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (the **Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, in each case, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 13 (*Notices*) not less than 15 days (or such shorter period as may be specified in the applicable Final Terms) prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 13 (*Notices*) at least five days (or such shorter period as is specified in the applicable Final Terms) prior to the Selection Date.

6.4. *Redemption at the option of the Covered Bondholders (Investor Put)*

If an Investor Put is specified in the Final Terms (the **Investor Put**), then if and to the extent specified in the applicable Final Terms, upon the holder of this Covered Bond giving to the Issuer, in accordance with Condition 13 (*Notices*), not less than 15 nor more than 30 days' (or such other notice period specified in the applicable Final Terms) notice (which notice shall be irrevocable), the Issuer will, upon the expiry of such notice provided that the Cash Manager has notified the Bond Trustee in writing that there will be sufficient funds available to pay any termination payment due to the relevant Covered Bond Swap Provider(s), redeem subject to, and in accordance with, the terms specified in the applicable Final Terms in whole (but not in part) such Covered Bond on the Optional Redemption Date and at the relevant Optional Redemption Amount as specified in, or determined in the manner specified in, the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied where relevant, the provisions will be set out in the applicable Final Terms.

If the relevant Covered Bond is in definitive form, to exercise the right to require redemption of this Covered Bond, the holder of the relevant Covered Bond must (in the case of Bearer Covered Bonds) deliver such Covered Bond (together with all unmatured Receipts and Coupons and unexchanged Talons), on any Business Day falling within the above-mentioned notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise of the Investor Put in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) within the notice period and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition 6.4. In the case of Registered Covered Bonds, the holder of the Covered Bond must deliver the certificate representing such Covered Bond to the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Put Notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the above-mentioned notice period. No Covered Bond or certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

6.5. *Redemption due to illegality or invalidity*

- (a) The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bond Trustee, the Principal Paying Agent, the Registrar (if applicable) and, in accordance with Condition 13 (*Notices*), all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Bond Trustee immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the LLP under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date.
- (b) Covered Bonds redeemed pursuant to Condition 6.5(a) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.6. *General*

Prior to the publication of any notice of redemption pursuant to Conditions 6.2 or 6.5(a), the Issuer shall deliver to the Bond Trustee a certificate signed by two Directors stating that the Issuer is entitled or required to effect such redemption in accordance with Conditions 6.2 or 6.5(a) and the Bond Trustee shall be entitled to accept the certificate as sufficient evidence of the Issuer's rights or obligation (as applicable) under Conditions 6.2 or 6.5(a) in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

6.7. *Early Redemption Amounts*

For the purpose of Conditions 6.2 and 6.5(a) and Condition 9 (*Events of Default, Acceleration and Enforcement*), each Covered Bond will be redeemed (unless otherwise stated in the applicable Final Terms) at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond other than a Zero Coupon Covered Bond (but including an Instalment Covered Bond or a Partly Paid Covered Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding, together with interest accrued to (but excluding) the date fixed for redemption; and
- (b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable.

Where such calculation in paragraph (b) above is to be made for a period which is not a whole number of years, it shall be made (A) in the case of a Zero Coupon Covered Bond payable in a Specified Currency other than euro, on the basis of a 360-day year consisting of 12 months of 30 days each, or (B) in the case of a Zero Coupon Covered Bond payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non leap year divided by 365) or (C) on such other calculation basis as may be specified in the applicable Final Terms.

6.8. *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7.

6.9. *Purchases*

The Issuer or any of its subsidiaries (including the LLP), or any holding company of the Issuer or any other subsidiary of any such holding company may at any time purchase or otherwise acquire Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are attached thereto or surrendered therewith) at any price and in any manner. If purchases are made by tender, tenders must be available to all the Covered Bondholders alike. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant subsidiary, surrendered to any Paying Agent and/or the Registrar for cancellation (except that any Covered Bonds purchased or otherwise acquired by the LLP must immediately be surrendered to any Paying Agent and/or the Registrar for cancellation).

6.10. *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 6.9 and cancelled (together with, in the case of Bearer Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

6.11. *Taxes*

The Issuer has undertaken in the Trust Deed to pay United Kingdom stamp and other duties or taxes (if any) on or in connection with the execution of the Trust Deed and United Kingdom, Belgian and Luxembourg stamp and other duties or taxes (if any) payable on or in connection with the constitution and original issue of any Covered Bonds and the Definitive Covered Bonds and the Receipts and the Coupons and stamp and other duties or taxes (if any) payable in the United Kingdom (but not elsewhere) solely by virtue of and in connection with any action properly taken by the Bond Trustee (or any Covered Bondholder, Couponholder, Receiptholder, or holder of Talons where permitted to do so under the Trust Deed) to enforce the provisions of the Covered Bonds, Receipts, Coupons, Talons or the Trust Deed, save that the Issuer shall not be liable to pay any such stamp or other duties or taxes to the extent that the obligation arises or the amount payable is increased by reason of the holder at the relevant time unreasonably delaying in producing any relevant document for stamping or similar process. Subject as aforesaid, the Issuer will not be otherwise responsible for stamp or other duties or taxes otherwise imposed and in particular (but without prejudice to the generality of the foregoing) for any penalties arising on account of late payment where due by the holder at the relevant time. Any such stamp or other duties or taxes that might be imposed upon or in respect of Covered Bonds in global or definitive form or the Receipts, Coupons or Talons (in each case other than as aforesaid) shall be the liability of the relevant holders thereof.

6.12. *Redemption of Index Linked Redemption Covered Bonds*

Unless previously redeemed or purchased and cancelled, each nominal amount of the Index Linked Redemption Covered Bonds equal to the Calculation Amount set out in the Applicable Final Terms (the **Specified Amount**) will be redeemed by the Issuer at the Final Redemption Amount(s) specified in, or determined in the manner specified in the applicable Final Terms on the Maturity Date.

Information on (i) potential adjustments, de-listing, merger events and other factors; and (ii) physical delivery, will be set out in the applicable Final Terms

6.13. *Redemption of Equity Linked Redemption Covered Bonds*

Unless previously redeemed or purchased and cancelled, each nominal amount of Equity Linked Redemption Covered Bonds equal to the Calculation Amount specified in the applicable Final Terms (the **Specified Amount**) will be redeemed by the Issuer: (i) if Cash Settlement is specified in the applicable Final Terms, by payment of the Final Redemption Amount(s) specified in the applicable Final Terms, or determined in the manner specified in the applicable Final Terms, on the Maturity Date; or (ii) if Physical Delivery is specified in the applicable Final Terms, by delivery of the Asset Amount(s) specified in the applicable Final Terms, or determined in the manner specified in the applicable Final Terms, on the Maturity Date (subject as provided below); or (iii) if Cash Settlement and/or Physical Delivery is specified in the applicable Final Terms, by payment of the Final Redemption Amount(s) and/or delivery of the Asset Amount(s) on the terms set out in the applicable Final Terms, in each case on the Maturity Date.

Information on the adjustment to an index will be set out in the applicable Final Terms.

6.14. *Partly Paid Covered Bonds*

Partly Paid Covered Bonds will be redeemed at maturity in accordance with the provisions of the applicable Final Terms. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 6.7.

7. **Taxation**

All payments of principal and interest (if any) in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer or the LLP, as the case may be, will be made without withholding or deduction for or on account of any present or future taxes, duties, or other charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction of such taxes, duties, or other charges is required by law. In that event, the Issuer will pay such additional amounts of principal and interest as will result (after such withholding or deduction) in receipts by the holders of the Covered Bonds, Receipts or Coupons of the sums which would otherwise have been receivable in respect of the Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon:

- (a) presented for payment in the United Kingdom; or
- (b) presented for payment by or on behalf of a holder who (i) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant taxing authority but fails to do so, or (ii) is liable for such taxes, duties or other charges in respect of such Covered Bonds, Receipts or Coupons (as the case may be) by reason of his having some connection with the United Kingdom other than merely by reason of the holding of such Covered Bonds, Receipts or Coupons; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) presented for payment by, or on behalf of a holder that is a partnership or a holder that is not the sole beneficial owner of the Covered Bond, Receipt or Coupon, or which holds the Covered Bond, Receipt or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment.

As used herein, the **Relevant Date** means the date on which payment in respect of the Covered Bond, Receipt or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such date, the **Relevant Date** shall be the date on which such moneys shall have been so received and notice to that effect has been given to Covered Bondholders in accordance with Condition 13 (*Notices*).

If any payments made by the LLP under the Covered Bond Guarantee are or become subject to any withholding or deduction on account of any taxes, duties or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or by any authority therein or thereof having power to tax, the LLP will not be obliged to pay any additional amounts as a consequence.

## 8. Prescription

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within ten years (in the case of principal) and five years (in the case of interest) in each case from the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor, subject in each case to the provisions of Condition 5 (*Payments*).

The Issuer shall be discharged from its obligation to pay principal on a Registered Covered Bond to the extent that the relevant Registered Covered Bond certificate has not been surrendered to the Registrar by, or a cheque which has been duly despatched in the Specified Currency remains uncashed at, the end of the period of ten years from the Relevant Date for such payment.

The Issuer shall be discharged from its obligation to pay interest on a Registered Covered Bond to the extent that a cheque which has been duly despatched in the Specified Currency remains uncashed at the end of the period of five years from the Relevant Date in respect of such payment.

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5 (*Payments*) or any Talon which would be void pursuant to Condition 5 (*Payments*).

In respect of Equity Linked Redemption Covered Bonds only where redemption provides for physical delivery of Asset Amount(s) in the Final Terms, claims against the Issuer or LLP for delivery of any Asset Amount(s) shall be prescribed and become void unless made within one year of the date on which the relevant Asset Amount(s) becomes deliverable.

## 9. Events of Default, Acceleration and Enforcement

### 9.1. *Issuer Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.1 means the Covered Bonds of this Series together with the Covered Bonds of all other Series (if any) constituted by the Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the LLP under the Covered Bond Guarantee) each Covered Bond of each Series is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not included in the Early Redemption Amount) accrued interest as provided in the Trust Deed if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) if default is made by the Issuer for a period of 14 days or more in the payment of any interest or principal due in respect of the Covered Bonds;
- (b) if the Issuer fails to perform or observe any of its other obligations under the Covered Bonds, Receipts or Coupons of any Series or the Trust Deed or any other Transaction Documents to which the Issuer is a party (other than the Programme Agreement or any Subscription Agreement), but excluding any obligation of the Issuer to comply with the Asset Coverage Test and (except where the Bond Trustee, in its absolute discretion, considers such failure to be incapable of remedy when no such continuation or notice as is hereinafter referred to will be required) such failure continues for the period of 30 days (or such longer period as the Bond Trustee may permit) next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied. For the avoidance of doubt, a breach by the Issuer of any of the representations or warranties provided under any of the Transaction Documents shall not constitute an Issuer Event of Default;
- (c) if an order is made or an effective resolution is passed for the winding up of the Issuer (otherwise than for the purposes of a reconstruction or, amalgamation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution of all the Covered Bondholders);

- (d) if the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Liquidity Test Breach Period, and the LLP has not cured the breach as described in the LLP Deed before the earlier to occur of:
  - (i) ten Business Days from the date that the Seller and the LLP are notified of the breach of the Pre-Maturity Test; and
  - (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds;
- (e) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, or
- (f) the Issuer shall be unable to pay its debts as they fall due (within the meaning of section 123(1)(b) to (e) and section 123(2) of the Insolvency Act (as those sections may be amended)) or shall admit inability to pay its debts as they fall due or shall stop making payment in respect of any debts that are due (save, in the case of stopping making payments, in each case in respect of any obligation for the payment of principal or interest in respect of the Covered Bonds of any Series) or shall be adjudged or found bankrupt or insolvent,

provided that any condition, event or act described in subparagraph (b) above shall only constitute an Issuer Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series and provided also that to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations a breach of any obligation to provide notices, reports or other information to the FSA under the RCB Regulations and/or the RCB Sourcebook shall not be considered materially prejudicial to the interests of the Covered Bondholders by the Bond Trustee.

Upon the Covered Bonds becoming immediately due and payable against the Issuer pursuant to this Condition 9.1, the Bond Trustee shall forthwith serve a notice to pay (the **Notice to Pay**) on the LLP and the Issuer with a copy to the Principal Paying Agent pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the LLP shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of an Issuer Acceleration Notice, the Bond Trustee may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 9.3.

The Trust Deed provides that all moneys received by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator or other similar official appointed in relation to the Issuer following service of an Issuer Acceleration Notice (the **Excess Proceeds**), shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Deed of Charge and the LLP Deed. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations. By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

## 9.2. *LLP Events of Default*

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 9.2 means the Covered Bonds of this Series together with the Covered Bonds of all other Series (if any) constituted by the Trust Deed) then outstanding as if they were a single Series (with the Principal Amount Outstanding of Covered Bonds not denominated in Sterling converted into Sterling at the relevant Covered Bond Swap Rate) or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in

each case to being indemnified and/or secured to its satisfaction), give notice (the **LLP Acceleration Notice**) in writing to the Issuer and the LLP, that (i) each Covered Bond of each Series is, and each Covered Bond of each Series shall as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with (to the extent not already included in the Early Redemption Amount) accrued interest, and (ii) all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series together with (to the extent not already included in the Early Redemption Amount) accrued interest, in each case as provided in the Trust Deed and thereafter the Security shall become enforceable if any of the following events (each an **LLP Event of Default**) shall occur and be continuing:

- (a) if default is made by the LLP for a period of seven days or more in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 6.1 when the LLP shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if default is made by the LLP in the performance or observance of any obligation, condition or provision binding on it (other than any obligation for the payment of Guaranteed Amounts in respect of the Covered Bonds of any Series) under the Trust Deed, the Deed of Charge or any other Transaction Document other than the Programme Agreement or any Subscription Agreement (other than the obligation to satisfy the Asset Coverage Test in accordance with Clause 11 of the LLP Deed) to which the LLP is a party and (except where such default is or the effects of such default are, in the opinion of the Bond Trustee, acting in its absolute discretion, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required), such default continues for 30 days (or such longer period as the Bond Trustee may permit) after written notice thereof has been given by the Bond Trustee to the LLP requiring the same to be remedied; or
- (c) if an order is made or an effective resolution passed for the liquidation or winding up of the LLP; or
- (d) if the LLP ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (e) if the LLP is unable, or admits inability, to pay its debts generally as they fall due or shall be adjudicated or found bankrupt or insolvent; or
- (f) if proceedings are initiated against the LLP under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the filing of documents with a court or any registrar for its winding-up, administration or dissolution or the giving notice of the intention to appoint an administrator (whether out of court or otherwise)); or a receiver, administrator, trustee or other similar official shall be appointed (whether out of court or otherwise) in relation to the LLP or in relation to the whole or any part of its assets, or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or any part of its assets, or if the LLP shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance, assignment or assignation for the benefit of, or shall enter into any composition with, its creditors generally; or
- (g) if there is a failure to satisfy the Amortisation Test (as set out in the LLP Deed) on any Calculation Date following service of a Notice to Pay,

provided that any condition, event or act described in subparagraph (b) above shall only constitute an LLP Event of Default if the Bond Trustee shall have certified in writing to the Issuer and the LLP that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

Following service of an LLP Acceleration Notice, each of the Bond Trustee and the Security Trustee may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 9.3.

Upon service of an LLP Acceleration Notice, the Covered Bondholders shall have a claim against the LLP, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with (to the extent not included in the Early Redemption Amount) accrued interest and any other amount due under such Covered Bonds (other than additional amounts payable under Condition 7 (*Taxation*)) as provided in the Trust Deed.

### 9.3. *Enforcement*

The Bond Trustee may at any time after service of an Issuer Acceleration Notice (in the case of the Issuer) or an LLP Acceleration Notice (in the case of the LLP), at its discretion and without further notice, take such proceedings against the Issuer or the LLP, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Trust Deed, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document to which it is a party, but it shall not be bound to take any such enforcement proceedings in relation to the Trust Deed, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together as a single Series and (where appropriate) converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid) and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, trusts, authorities and discretions under this Condition 9 the Bond Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single Series and shall not have regard to the interests of any other Secured Creditors.

The Security Trustee may at any time after the Security has become enforceable, at its discretion and without further notice, take such proceedings against the LLP and/or any other person as it may think fit to enforce the provisions of the Deed of Charge or any other Transaction Document in accordance with its terms and take such proceedings or steps as it may think fit to enforce the Security, but it shall not be bound to take any such proceedings or steps unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than 20 per cent. of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding (taken together and (where appropriate) converted into Sterling at the relevant Covered Bond Swap Rate as aforesaid), and (ii) it shall have been indemnified and/or secured to its satisfaction. In exercising any of its powers, trusts, authorities and discretions under this paragraph the Security Trustee shall only have regard to the interests of the Covered Bondholders of all Series together as a single Series and shall not have regard to the interests of any other Secured Creditors.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the LLP or to take any action with respect to the Trust Deed, the Deed of Charge, any other Transaction Document, the Covered Bonds, the Receipts, the Coupons, or the Security unless the Bond Trustee or the Security Trustee, as applicable, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing. For the avoidance of doubt, no Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed if the Bond Trustee or the Security Trustee, as the case may be, has notified the Covered Bondholder, the Receiptholder or Couponholder that it is considering whether or not to take the relevant action.

## 10. **Replacement of Covered Bonds, Receipts, Coupons and Talons**

If any Covered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds), or any other place approved by the Bond Trustee of which notice shall have been given to the Covered Bondholders in accordance with Condition 13 (*Notices*) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia* that if the allegedly lost, stolen, mutilated, defaced or destroyed Covered Bond Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Covered Bond, Receipt, Coupon or Talon or further Coupon) and otherwise as the Issuer may require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued. In addition, the Issuer may require the

person requesting delivery of a replacement Covered Bond, Receipt, Coupon or Talon to pay, prior to delivery of such replacement Covered Bond, Receipt, Coupon or Talon, any stamp or other tax or governmental charges required to be paid in connection with such replacement. No replacement Covered Bond shall be issued having attached thereto any Receipt, Coupon, or Talon, claims in respect of which shall have become void pursuant to Condition 8 (*Prescription*).

#### **11. Principal Paying Agent, Paying Agents, Registrar, Transfer Agent and Exchange Agent**

The names of the initial Principal Paying Agent, the initial Registrar, the initial Transfer Agent, the initial Exchange Agent and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Bond Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) the Issuer will, so long as any Covered Bonds are outstanding, maintain a Paying Agent (which may be the Principal Paying Agent) having a specified office in a city approved by the Bond Trustee in Europe;
- (c) so long as any Covered Bond is listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) which may be the Principal Paying Agent, and a Transfer Agent (in the case of Registered Covered Bonds) which may be the Registrar, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or, as the case may be, other relevant authority;
- (d) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are registered in the name of DTC or its nominee, there will at all times be an Exchange Agent with a specified office in the United States; and
- (e) there will at all times be a Paying Agent in a Member State of the European Union that shall not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing or complying with, or introduced in order to conform to, such Directive, provided that the Issuer shall not, under any circumstances, be obliged to maintain a Paying Agent with a specified office in such Member State of the European Union unless at least one European Member State does not require a Paying Agent making payments through a specified office in that Member State to so withhold or deduct tax.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 5.5. Any such variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 day's prior notice shall have been given to the Covered Bondholders in accordance with Condition 13 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the LLP and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

#### **12. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon Sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bearer Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 8 (*Prescription*).

Where:

- (a) a Talon (the **relevant Talon**) has become prescribed in accordance with Condition 8 (*Prescription*); and
- (b) the Covered Bond to which the relevant Talon pertains has not become void through prescription; and
- (c) no Coupon sheet (or part thereof, being (a) Coupon(s) and/or a Talon, hereinafter called a **part Coupon sheet**), which Coupon sheet would have been exchangeable for the relevant Talon or for any subsequent Talon bearing the same serial number pertaining to such Covered Bond, has been issued; and
- (d) either no replacement Coupon sheet or part Coupon sheet has been issued in respect of any Coupon sheet or part Coupon sheet referred to in (c) above or, in the reasonable opinion of the Issuer, there is no reasonable likelihood that any such replacement has been issued,

then upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity or security as the Issuer may reasonably require there may be obtained at the specified office of the Paying Agent (or such other place of which notice shall be given in accordance with Condition 13 (*Notices*)), a Coupon sheet or Coupon sheets or part Coupon sheet(s), as the circumstances may require, issued:

- (A) in the case of a Covered Bond that has become due for redemption (x) without any Coupon itself prescribed in accordance with Condition 8 (*Prescription*) or the Relevant Date for payment of which would fall after the Relevant Date for the redemption of the relevant Covered Bond, and (y) without any Talon or Talons, as the case may be; or
- (B) in any other case, without any Coupon or Talon itself prescribed in accordance with Condition 8 (*Prescription*) and without any Talon pertaining to a Coupon sheet the Relevant Date of the final Coupon of which falls on or prior to the date when the Coupon sheet(s) or part Coupon sheet(s) is (are) delivered to or to the order of the claimant, but in no event shall any Coupon sheet be issued the original due date for exchange of which falls after the date of delivery of such Coupon sheet(s) as aforesaid.

For the avoidance of doubt, the provisions of this Condition 12 (*Exchange of Talons*) shall not give, or revive, any rights in respect of any Talon that has become prescribed in accordance with Condition 8 (*Prescription*).

### 13. Notices

All notices regarding the Bearer Covered Bonds will be valid if published in one leading English language daily newspaper of general circulation in London (expected to be the *Financial Times*) or any other daily newspaper in London approved by the Bond Trustee. The Issuer or, in the case of a notice given by the Bond Trustee or the Security Trustee, the Bond Trustee or the Security Trustee (as the case may be) shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers or where published in such newspapers on different dates, the last date of such first publication. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Covered Bonds are listed, quoted or traded on a stock exchange or are admitted to listing or trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice will be deemed to have been given on the date of such publication. If the giving of notice as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

So long as the Covered Bonds are represented in their entirety by any Global Covered Bonds held on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) or such mailing, the delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds provided that, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing or trading by any other relevant authority and the rules of the stock exchange, or as the case may be, other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or, as the case may be, any other relevant authority. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the third day after the day on which the said notice was given to DTC and/or Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relevant Covered Bond or Covered Bonds, with the Principal Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and DTC and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. Meetings of Covered Bondholders, Modification and Waiver**

**Covered Bondholders, Receiptholders, Couponholders and other Secured Parties should note that the Issuer, the LLP and the Principal Paying Agent may without their consent or the consent of the Bond Trustee or the Security Trustee agree to modify any provision of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.**

##### *14.1. Meetings of Covered Bondholders*

The Trust Deed contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of modifications to these Terms and Conditions or the provisions of the Covered Bonds, the Receipts, the Coupons, the Trust Deed or any of the other Transaction Documents. Such a meeting may be convened by the Issuer, the LLP or the Bond Trustee and shall be convened by the Issuer at the request in writing of Covered Bondholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding. The quorum at any such meeting in respect of Covered Bonds of any Series for the transaction of business other than the passing of an Extraordinary Resolution or a Programme Resolution is one or more persons holding or representing in the aggregate not less than one-twentieth of the Principal Amount Outstanding of the Covered Bonds of such Series for the time outstanding. The quorum at any such meeting in respect of any Covered Bonds of any Series for passing an Extraordinary Resolution is one or more persons holding or representing in the aggregate a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders of such Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented, except that at any meeting the business of which includes the modification of any Series Reserved Matter, the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders of a Series shall, subject as provided below, be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Receiptholders and Couponholders in respect of such Series of Covered Bonds. A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in Principal Amount Outstanding of the Covered Bonds of a Series shall take effect as an Extraordinary Resolution of the holders of the Covered Bonds of such Series. If and whenever the Issuer shall have issued and have outstanding Covered Bonds of more than one Series the above provisions shall have effect subject to the following modifications:

- (a) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Covered Bonds of that Series;
- (b) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of more than one Series but does not give rise to a conflict of interest between the holders of Covered Bonds of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Covered Bonds of all the Series so affected; and
- (c) a resolution which in the opinion of the Bond Trustee affects the interests of the holders of the Covered Bonds of more than one Series and gives or may give rise to a conflict of interest between the holders of the Covered Bonds of one Series or group of Series so affected and the holders of the Covered Bonds of another Series or group of Series so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Covered Bonds of each Series or group of Series so affected,

and the above provisions concerning quorum and voting shall apply *mutatis mutandis* to such meeting or meetings.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution (A) (i) to direct the Bond Trustee to accelerate the Covered Bonds pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*); (ii) to direct the Bond Trustee or the Security Trustee to take any enforcement action pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) or (iii) to direct the Bond Trustee to make any such determination as is referred to in Clause 20.1(b)(B) of the Trust Deed or (B) in relation to the appointment of a new Bond Trustee or Security Trustee or the removal of the Bond Trustee or Security Trustee (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series as provided in Clause 2.8 (*Separate Series*) of the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate). Any such meeting to consider a Programme Resolution may be convened by the Issuer, the LLP or the Bond Trustee or by Covered Bondholder, holding at least 20 per cent. of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least a clear majority of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds of any Series whatever the Principal Amount Outstanding of the Covered Bonds of such Series so held or represented. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders in respect of such Covered Bonds.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in Sterling, the Principal Amount Outstanding of the Covered Bonds of any Series not denominated in Sterling shall be converted into Sterling at the relevant Covered Bond Swap Rate.

The Trust Deed and the Deed of Charge contain similar provisions to those described above in relation to requests in writing from Covered Bondholders upon which the Bond Trustee or, as the case may be, the Security Trustee is bound to act (including in relation to the matters described in Conditions 9.1, 9.2, 9.3 (*Events of Default, Acceleration and Enforcement*) and 14.2 (*Modifications and Waivers*)).

#### 14.2. *Modifications and Waivers*

The Bond Trustee, the Security Trustee, the LLP and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series and without the consent of the other Secured Creditors other than any Secured Creditor that is party to the relevant documents (and for this purpose the Bond Trustee and the Security Trustee may disregard whether any such modification relates to a Series Reserved Matter), to:

- (a) any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document provided that (i) in the sole opinion of the Bond Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of

any Series, and (ii) in the sole opinion of the Security Trustee such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds TSB Group; or

- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document which is in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be) of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Bond Trustee or the Security Trustee (as the case may be), proven, or is to comply with mandatory provisions of law.

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

The Bond Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds, the Receipts or Coupons of any Series or any of the provisions of any of the Transaction Documents, or determine, without any such consent as aforesaid, that any Issuer Event of Default or LLP Event of Default or Potential Issuer Event of Default or Potential LLP Event of Default shall not be treated as such, provided that, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series and provided always that the Bond Trustee shall not exercise any powers conferred on it in contravention of any express direction given by Extraordinary Resolution. The Security Trustee may also agree, without the consent of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders or any other Secured Creditor, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents, provided that, in any such case, it is not, in the sole opinion of the Security Trustee, materially prejudicial to the interests of any of the Covered Bondholders of any Series, or the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds TSB Group.

The Bond Trustee or, as the case may be, the Security Trustee shall be bound to agree to any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document if it is directed by Extraordinary Resolution of the relevant Covered Bondholders or requested to do so in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the relevant Covered Bonds then outstanding and, in each case, only if it shall first be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that, in the case of the Security Trustee, in its opinion, such modification is not materially prejudicial to the interests of any of the Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds TSB Group.

The Bond Trustee or, as the case may be, the Security Trustee shall be bound to (i) waive or authorise any breach or proposed breach of any of the provisions of the Covered Bonds of any Series or any of the provisions of the Transaction Documents or (ii) in the case of the Bond Trustee, determine that any Issuer Event of Default, Potential Issuer Event of Default, LLP Event of Default or Potential LLP Event of Default shall not be treated as such if it is so directed by Extraordinary Resolution of the relevant Covered Bondholders or requested to do so in writing by the holders of at least 20 per cent. of the aggregate Principal Amount Outstanding of the relevant Covered Bonds then outstanding (in the case of any such determination as is referred to in (ii) above, with the Covered Bonds of all Series taken together as a single Series as provided in Clause 2.8 of the Trust Deed and, if applicable, converted into Sterling at the relevant Covered Bond Swap Rate) and, in each case, only if it shall first be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that, in the case of the Security Trustee, in its opinion, such waiver or authorisation is not materially prejudicial to the interests of any of the

Covered Bond Swap Providers or the Interest Rate Swap Provider, except for any Covered Bond Swap Provider or the Interest Rate Swap Provider who is a member of the Lloyds TSB Group.

In relation to any such modification, waiver, authorisation or determination, the Trust Deed contains provisions (which are described in Condition 14.1 (*Meetings of Covered Bondholders*)) for determining which Series of Covered Bonds are relevant in any particular case and for determining whether separate Extraordinary Resolutions or requests of each relevant Series or a single Extraordinary Resolution or request of all relevant Series are/is required.

In respect of any proposed modification, waiver, authorisation or determination in the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, to the extent that the Issuer decides to apply, the Security Trustee or the Bond Trustee shall not agree to any modification or make or grant any authorisation, waiver or determination pursuant to this Condition 14 (*Meetings of Covered Bondholders, Modification and Waiver*), until it shall have received from the Issuer written confirmation that such modification, waiver, authorisation or determination, as applicable, would not result in a breach of the RCB Regulations and that either:

- (a) such modification, authorisation, waiver or determination would not require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations; or
- (b) if such modification, authorisation, waiver or determination would require the FSA to be notified in accordance with Regulation 20 of the RCB Regulations, the Issuer has provided all information required to be provided to the FSA and the FSA has given its consent to such proposed modification, authorisation, waiver or determination.

Where the Security Trustee is unable to determine whether any such modification, waiver or authorisation is materially prejudicial to the interests of any of the Covered Bond Swap Provider or the Interest Rate Swap Provider (except for any Covered Bond Swap Provider or Interest Rate Swap Provider who is a member of the Lloyds TSB Group), it shall give written notice to the Covered Bond Swap Provider and/or the Interest Rate Swap Provider (as the case may be), setting out the relevant details and requesting its consent thereto. The Covered Bond Swap Provider or Interest Rate Swap Provider (as the case may be), shall, within ten Business Days of receipt of such notice (the **Relevant Period**), notify (in writing) the Security Trustee of:

- (a) its consent (such consent not to be unreasonably withheld or delayed) to such proposed modification, waiver or authorisation; or
- (b) its refusal to give such consent and reasons for such refusal (such refusal not to be unreasonably made and to be considered in the context of its security position under the Deed of Charge).

Any failure by the Covered Bond Swap Provider or Interest Rate Swap Provider to notify the Security Trustee as aforesaid within the Relevant Period shall be deemed to be a consent by the relevant Swap Provider to such proposed modification, waiver or authorisation.

The Security Trustee may (without further enquiry) rely upon the consent (including deemed consent) or refusal in writing of the Covered Bond Swap Provider or Interest Rate Swap Provider, as provided above and shall have no liability to the Covered Bond Swap Provider, Interest Rate Swap Provider or any other Secured Creditor for consenting or not consenting (as the case may be) to a modification, waiver or authorisation on the basis of any such consent or refusal in writing or any deemed consent as provided above.

Any such modification, waiver, authorisation or determination shall be binding on all Covered Bondholders of all Series of Covered Bonds, the related Receiptholders and the Couponholders and the other Secured Creditors, and unless the Security Trustee and the Bond Trustee otherwise agree, any such modification shall be notified by the Issuer to the Covered Bondholders of all Series of Covered Bonds for the time being outstanding and the other Secured Creditors in accordance with the relevant terms and conditions as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee and (where it is required to have regard to the interests of the Covered Bondholders) the Security Trustee shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered

Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee and the Security Trustee shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other person any indemnification or payment in respect of any tax or stamp duty consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or in any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

For the purposes hereof:

**Potential Issuer Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default; and

**Potential LLP Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an LLP Event of Default.

**15. Indemnification of the Bond Trustee and/or Security Trustee and Bond Trustee and/or Security Trustee Contracting with the Issuer and/or the LLP**

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

The Trust Deed and the Deed of Charge contain provisions for the indemnification of the Bond Trustee and the Security Trustee and for their relief from responsibility, including provisions relieving them from taking any action unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which each of the Bond Trustee and Security Trustee, respectively, is entitled, *inter alia*, (i) to enter into contracts, financial or other transactions with the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, holding companies or any person or body corporate associated with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the LLP and/or any of their respective Subsidiaries and affiliates, holding companies or any other person or body corporate as aforesaid, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders or any other Secured Creditors, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

Neither the Bond Trustee nor the Security Trustee will be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Bond Trustee and/or the Security Trustee. Neither the Bond Trustee nor the Security Trustee will be responsible for (i) supervising the performance by the Issuer, the LLP or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Bond Trustee and the Security Trustee will be entitled to assume, until they each have received written notice to the contrary, that all such persons are properly performing their duties; (ii) considering the basis on which approvals or consents are granted by the Issuer, the LLP or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, compliance with the Asset Coverage Test, the Pre-Maturity Liquidity Test or the

Amortisation Test; or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. Neither the Bond Trustee nor the Security Trustee will be liable to any Covered Bondholder or other Secured Creditor for any failure to make or to cause to be made on their behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Security and have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

#### 16. **Limited Recourse**

The Covered Bondholders agree with the LLP and the Security Trustee that, notwithstanding any other provision of any Transaction Document, all obligations of the LLP to the Covered Bondholders in respect of the Secured Obligations owing to the Covered Bondholders are limited in recourse to the Charged Property and, upon the Security Trustee giving written notice to the Covered Bondholders that:

- (a) it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Charged Property (whether arising from enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Transaction Documents; and
- (b) all amounts available to be applied to pay amounts owing under the Transaction Documents have been so applied in accordance with the Transaction Documents,

the Covered Bondholders shall have no further claim against the LLP in respect of any amounts owing to them which remain unpaid and such unpaid amounts shall be deemed to be discharged in full.

#### 17. **Further Issues**

The Issuer shall be at liberty from time to time (but subject always to the provisions of the Trust Deed and the Deed of Charge) without the consent of the Covered Bondholders, Receiptholders or Couponholders to create and issue further Covered Bonds (whether in bearer or registered form) having terms and conditions the same as the Covered Bonds of any Series or the same in all respects and guaranteed by the LLP save for the amount and date of the first payment of interest thereon, issue date and/or issue price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds of such Series.

#### 18. **Ratings Confirmations**

- 18.1. By subscribing for or purchasing Covered Bond(s), each Covered Bondholder shall be deemed to have acknowledged and agreed that a credit rating of a Series of Covered Bonds is an assessment of credit risk and does not address other matters that may be of relevance to Covered Bondholders, including, without limitation, in the case of a confirmation by a Rating Agency that any action proposed to be taken by the Issuer, the LLP, the Seller, the Servicer, the Cash Manager, the Bond Trustee, the Security Trustee or any other party to a Transaction Document will not have an adverse effect on the then current rating of the Covered Bonds or cause such rating to be withdrawn (a **Rating Agency Confirmation**), whether such action is either (i) permitted by the terms of the relevant Transaction Document or (ii) in the best interests of, or not prejudicial to, some or all of the Covered Bondholders.
- 18.2. In being entitled to have regard to the fact that a Rating Agency has confirmed that the then current rating of the relevant Series of Covered Bonds would not be adversely affected or withdrawn, each of the Issuer, the LLP, the Bond Trustee, the Security Trustee and the Secured Creditors (including the Covered Bondholders) is deemed to have acknowledged and agreed that a Rating Agency Confirmation does not impose or extend any actual or contingent liability on the Rating Agencies to the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person or create any legal relations between the Rating Agencies and the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Secured Creditors (including the Covered Bondholders) or any other person whether by way of contract or otherwise.
- 18.3. By subscribing for or purchasing Covered Bond(s) each Covered Bondholder shall be deemed to have acknowledged and agreed that:
  - (a) a Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency;
  - (b) depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating

Agency Confirmation in the time available, or at all, and the Rating Agency shall not be responsible for the consequences thereof;

- (c) a Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Covered Bonds forms a part; and
- (d) a Rating Agency Confirmation represents only a restatement of the opinions given, and shall not be construed as advice for the benefit of any Covered Bondholder or any other party.

**19. Substitution, Consolidation, Merger, Amalgamation or Transfer of the Issuer**

- (a) If so requested by the Issuer, the Bond Trustee and the Security Trustee shall, without the consent of the Covered Bondholders, Receiptholders or Couponholders or any other Secured Creditor, agree with the Issuer and the LLP to the substitution in place of the Issuer (or of the previous substitute under this Condition) as the principal debtor under the Covered Bonds, the Receipts, the Coupons and all other Transaction Documents of any Subsidiary of the Issuer or any holding company of the Issuer or any other subsidiary of any such holding company, in each case incorporated or to be incorporated in any country in the world or to the resubstitution of the Issuer (such substituted issuer being hereinafter called the **New Company**) PROVIDED THAT in each case a trust deed is executed and other forms of undertaking are given by the New Company in the form and manner satisfactory to the Bond Trustee, agreeing to be bound by the provisions of the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which the Issuer is a party and with any consequential amendments which the Bond Trustee may deem appropriate as fully as if the New Company had been named in the trust presents, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents as the principal debtor in place of the Issuer (or of the previous substitute under this Condition). Further conditions shall apply to such substitution above as set out in the Trust Deed.
- (b) Any such trust deed executed and/or undertakings given pursuant to this Condition shall, if so expressed, operate to release the Issuer or the previous substitute as aforesaid from all of its obligations as principal debtor under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which it is a party. Not later than 14 days after the execution of such documents and compliance with such requirements, the New Company shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 13 (*Notices*). Upon the execution of such documents and compliance with such requirements, the New Company shall be deemed to be named in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents in place of the Issuer (or in each case in place of the previous substitute) under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Company.
- (c) The Issuer may (without the consent of the Covered Bondholders, Receiptholders or Couponholders of any Series or any other Secured Creditor (including the Bond Trustee and the Security Trustee) where the new entity is a corporation organised under the laws of the United Kingdom) consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation (where the surviving entity or transferee company is not the Issuer, such surviving entity or transferee company shall be referred to as the **New Entity**). Further conditions shall apply to such consolidation, merger or amalgamation as set out in the Trust Deed.
- (d) Any such trust deed executed and/or undertakings given pursuant to this Condition shall, if so expressed, operate to release the Issuer (as the case may be) or the previous substitute as aforesaid from all of its obligations under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents. Not later than 14 days after such consolidation, merger, amalgamation and/or transfer, the New Entity shall give notice thereof in a form previously approved by the Bond Trustee to the Covered Bondholders in the manner provided in Condition 13 (*Notices*). Upon the execution of such documents and compliance with such

requirements, the New Entity shall be deemed to be named in the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents to which the Issuer is a party as the principal debtor in place of the Issuer (where the New Entity is the successor entity or transferee company of the Issuer) (or in each case in place of the previous substitute under this Condition) under the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents and the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents shall be deemed to be modified in such manner as shall be necessary to give effect to the above provisions and, without limitation, references in the trust presents, the Covered Bonds, the Receipts, the Coupons and the other relevant Transaction Documents to the Issuer shall, unless the context otherwise requires, be deemed to be or include references to the New Entity.

**20. Contracts (Rights of Third Parties) Act 1999**

No person (other than the Rating Agencies in respect of Condition 18 (*Ratings Confirmations*)) shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**21. Governing Law**

The Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents (other than each Scottish Declaration of Trust and certain documents to be granted pursuant to the Deed of Charge) and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law unless specifically stated to the contrary. Each Scottish Declaration of Trust and any non-contractual obligations arising out of or in connection with them shall be governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

## USE OF PROCEEDS

The gross proceeds (or the Sterling Equivalent thereof) from each issue of Covered Bonds will be used by the Issuer to make available Term Advances to the LLP pursuant to the terms of the Intercompany Loan Agreement, which in turn shall be used by the LLP (after exchanging the proceeds of the Term Advances into Sterling, if necessary) either to (i) acquire Loans and their Related Security or (ii) to invest the same in Substitution Assets up to the prescribed limit to the extent required to meet the requirements of Regulations 17(2)(b) and 24(1)(a)(ii) of the RCB Regulations (to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds maintained under the RCB Regulations) and the Asset Coverage Test and thereafter may be applied by the LLP:

- (a) to acquire Loans and their Related Security or to invest the same in Substitution Assets up to the prescribed limit;
- (b) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced;
- (c) subject to complying with the Asset Coverage Test, to make Capital Distributions to one or more Members; and/or
- (d) (if not denominated in Sterling, upon exchange into Sterling under the applicable Non-Forward Starting Covered Bond Swap) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Amount to an amount not exceeding the prescribed limit).

## LLOYDS TSB GROUP

*Terms defined in the sub-sections entitled "Regulation and Supervision in the United Kingdom", "Capital, Liquidity and Funding Arrangements" and "Legal actions" below have the meanings set out in the Definitions section of the Lloyds TSB Placing and Open Offer Prospectus as incorporated by reference herein.*

Lloyds TSB Group plc is the parent company of the Issuer. The Issuer was incorporated on 20 April 1865 (Registration number 2065). The Issuer's registered office is at 25 Gresham Street, London EC2V 7HN, telephone number 020 7626 1500.

### Overview

The Lloyds TSB 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. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision. For the six months ended 30 June 2008, Lloyds TSB had revenues of £4.6 billion and net income of £0.6 billion. As at 30 June 2008, Lloyds TSB Group had total assets of £367.8 billion and shareholders' equity of £10.8 billion. As at 30 June 2008, the risk asset ratios were 11.3 per cent. for total capital, 8.6 per cent. for Tier 1 capital and 6.2 per cent. for core Tier 1 capital.

The Lloyds TSB Group was formed in 1995 following the merger of Lloyds Bank and TSB Group plc, and now comprises the Lloyds TSB brand, along with Cheltenham & Gloucester, one of the largest mortgage providers in the UK, and Scottish Widows, one of the UK's largest providers of life, pensions and investment products.

Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking. Services provided by UK Retail Banking include the provision of banking and other financial services to personal customers, private banking and mortgages. Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management services. Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB Group's activities in financial markets through its treasury function and provides banking and financial services overseas.

The operations of Lloyds TSB Group in the UK are conducted through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and Cheltenham & Gloucester. C&G is Lloyds TSB Group's specialist mortgage arranger. International business is conducted mainly in the US and continental Europe. Lloyds TSB Group's services in these countries are offered largely through branches of Lloyds TSB Bank. Lloyds TSB Group also offers offshore banking facilities in a number of countries.

### History and development of Lloyds TSB

The history of the Lloyds TSB Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, it continued to expand with the acquisition of the Cheltenham and Gloucester Building Society.

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc with Lloyds Bank Plc, which was subsequently renamed Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of the TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds TSB Bank plc, and in 2000, the Lloyds TSB Group acquired Scottish Widows' Fund and Life Assurance Society. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned the Lloyds TSB Group as one of the leading suppliers of long-term savings and protection products in the UK.

In more recent years, the Lloyds TSB Group has disposed of a number of its non-core operations, as part of the process of managing its portfolio of businesses to focus on its core markets. These disposals have resulted in a significant reduction in the size of the Lloyds TSB Group's international business.

### **Strategy**

In an environment of strong competition, the Lloyds TSB Group believes that shareholder value can best be achieved by:

- focusing on markets where it can build and sustain competitive advantage;
- developing business strategies which are founded on being profitably different in the way it creates customer value; and
- building a high-performance organisation focused on the right goals and the best possible execution of the Lloyds TSB Group's strategies.

Reflecting this, in 2003, the Lloyds TSB Group put in place a three-phase strategy. In phase 1, the Lloyds TSB Group focused on enhancing the quality of its earnings by exiting businesses which were not regarded as core or which added unnecessary volatility to earnings. During this phase, the Lloyds TSB Group divested businesses in New Zealand and Latin America, markets in which it did not expect to be able to build and sustain competitive advantage. In phase 2, the Lloyds TSB Group focused on accelerating growth by deepening its customer relationships, improving productivity and building competitive advantage through enhanced capabilities. The Lloyds TSB Group also remained alert for opportunities to enter into phase 3, i.e. an acquisition that complemented its existing organic strategies. The HBOS acquisition constitutes the final phase of this strategy.

Relationships were and still are critical to the Lloyds TSB Group's strategy. The Lloyds TSB Group has chosen to focus on building deep, long-lasting relationships with its customers in order to deliver high quality, sustainable results over time. By building deep relationships, the Lloyds TSB Group aims to grow revenues and achieve a lower risk profile.

### **Markets**

The Lloyds TSB Group focuses on building competitive advantage in its core markets by seeking opportunities to consolidate its position in businesses where it is already strong, through a combination of organic growth and acquisitions, and by divesting businesses in markets where it is not a leader and cannot aspire reasonably to being one of the market leaders. The Lloyds TSB Group believes that it has good potential within its existing franchise to grow by meeting more of its customers' needs as well as through adding new customers to the franchise.

### **Strategy**

The Lloyds TSB Group's strategy is based on a belief that sustained growth comes from simultaneously focusing on (i) building strong customer relationships, (ii) continuous productivity improvement and (iii) strong capital management.

#### *Strong customer relationships*

In an increasingly competitive financial services market, and with customers able to exercise choice amongst alternative providers, shareholder value creation is closely linked to customer value creation. Shareholder value can only be created by attracting and retaining customers and winning a greater share of their financial services business. Across its main businesses, Lloyds TSB Group has strong core banking franchises, based on building strong customer relationships. The Lloyds TSB Group's strategy is focused on being differentiated in the creation of customer value to win a bigger share of its customers' total financial services spend.

#### *Continuous productivity improvement*

Superior economic profit growth also requires a continuous focus on productivity improvement, which drives both improved customer service and cost reduction. In recent years, the Lloyds TSB Group has been building a set of capabilities in 'six sigma' (error reduction), 'lean manufacturing' (operations efficiency) and procurement. Alongside those capabilities, the Lloyds TSB Group applies an 'income growth must exceed cost growth' discipline in setting goals for each business, requiring a wider gap between income growth and cost growth for lower growth/return businesses than for higher growth/return businesses.

The results have been evidenced across all three divisions in much reduced error rates in key processes, growing levels of income per employee and falling unit costs, without impacting investment in future growth. Further improvements in the Lloyds TSB Group's cost: income ratio are expected as these capabilities and disciplines are extended further.

#### *Capital and risk management*

Lloyds TSB Group measures value internally by economic profit growth, a measure of financial performance which signals where value is created or destroyed. It has developed a framework to measure economic equity requirements across all its businesses, taking into account market, credit, insurance, business and operational risk. Using economic profit as a key performance measure enables the Lloyds TSB Group to understand which strategies, products, channels and customer segments are destroying value and which are creating the most value and to make better capital allocation decisions as a result.

The application of these economic profit disciplines, alongside goal-setting linked to ensuring that revenue growth constantly exceeds cost growth, has already been reflected in a significant improvement in the capital efficiency of the Lloyds TSB Group's Insurance and Investments division and by a shift in business mix towards sectors offering higher risk-adjusted returns in wholesale banking. By the continued rigorous application of these disciplines at every level, the Lloyds TSB Group expects to further improve capital efficiency whilst remaining strongly capitalised.

It is the Lloyds TSB Group's belief that the relationship focused strategy has demonstrated its effectiveness in generating sustainable, high quality results. The prudent approach to risk means that the Lloyds TSB Group believes that it has relatively limited exposure to assets affected by capital market uncertainties and continues to retain a strong liquidity position.

#### **Principal Activities**

The Lloyds TSB Group's activities are organised into three divisions: UK Retail Banking, Insurance and Investments and Wholesale and International Banking.

#### ***UK Retail Banking***

UK Retail Banking provides banking, financial services, mortgages and private banking to some 16 million personal customers through the Lloyds TSB Group's multi-channel distribution capabilities.

#### *Branches*

The Lloyds TSB Group provides wide-reaching geographic branch coverage in England, Scotland and Wales, through over 1,980 branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G.

#### *Internet banking*

Internet banking provides online banking facilities for personal customers. Some 4.9 million customers have registered to use the Lloyds TSB Group's internet banking services. For the half year to 30 June 2008, these customers were conducting on average more than 75 million actions per month online, a 16 per cent. increase on the same period in 2007.

#### *Telephone banking*

As at 30 June 2008, some 5.5 million customers had registered to use the services of PhoneBank and the automated voice response service, PhoneBank Express. Lloyds TSB's telephone banking centres handled some 39 million calls during the first six months of 2008.

#### *Cash machines*

The Lloyds TSB Group has one of the largest cash machine networks of any leading banking group in the UK and, personal customers of Lloyds TSB Bank and Lloyds TSB Scotland are able to withdraw cash and check balances through over 4,100 ATMs at branches and external locations around the country. In addition, UK Retail Banking's personal customers have access to over 65,000 cash machines via LINK in the UK and to cash machines worldwide through the VISA and MasterCard networks.

### *Current accounts*

Lloyds TSB Bank and Lloyds TSB Scotland offer a wide range of current accounts, including interest-bearing current accounts and a range of added value accounts.

### *Savings accounts*

Lloyds TSB Bank, Lloyds TSB Scotland and C&G offer a wide range of savings accounts and retail investments through their branch networks and a postal investment centre.

### *Personal loans*

Lloyds TSB Bank and Lloyds TSB Scotland offer a range of personal loans through their branch networks and directly to the customer via the internet and telephone.

### *Cards*

The Lloyds TSB Group provides a range of card-based products and services, including credit and debit cards and card transaction processing services for retailers. The Lloyds TSB Group is a member of both the VISA and MasterCard payment systems and has access to the American Express payment system.

### *Mortgages*

C&G is the Lloyds TSB Group's specialist residential mortgage arranger, offering a range of mortgage products to personal customers through its own branches and those of Lloyds TSB Bank in England and Wales, as well as through the telephone, internet and postal service, Mortgage Direct. Lloyds TSB Group also provides mortgages through Lloyds TSB Scotland and Scottish Widows Bank. The Lloyds TSB Group is one of the largest residential mortgage lenders in the UK on the basis of outstanding balances, with mortgages outstanding at 30 June 2008 of £109.3 billion.

### *UK Wealth Management*

Wealth Management provides financial planning and advice for the Lloyds TSB Group's affluent customers, providing financial solutions across investments, retirement planning and income, trusts, tax and estate planning as well as share dealing. Expert advice is provided through a large population of the Lloyds TSB Group's financial advisors who can be accessed via the retail branch network and Private Banking offices throughout the United Kingdom. Customers are also provided with access to relationship banking as part of Lloyds TSB Private Banking, one of the largest private banks in the UK.

The UK Competition Commission's investigation of payment protection (also known as repayment) insurance could affect the distribution and pricing of this product across the industry. Further details as to the investigations are set out under the heading "*Legal actions – UK Competition Commission investigation of payment protection insurance*" below.

### ***Insurance and Investments***

Insurance and Investments offers life assurance, pensions and investment products, general insurance and fund management products and services through the Lloyds TSB, Scottish Widows and SWIP brands.

### *Life assurance, pensions and investments*

Scottish Widows is the Lloyds TSB Group's specialist provider of life assurance, pensions and investment products, which are distributed through Lloyds TSB Bank's branch network, through independent financial advisers and directly via a direct sales force, telephone and the internet. The Scottish Widows brand is the main brand for new sales of Lloyds TSB Group's life, pensions, Open Ended Investment Companies (OEICs) and other long-term savings products.

In common with other life assurance companies in the UK, the life and pensions business of each of the life assurance companies in the Lloyds TSB Group is written in a long-term business fund. The main long-term business fund is divided into With-Profits and Non-Profit sub-funds.

With-profits life and pensions products are written from the With-Profits sub-fund. The benefits accruing from these policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees

generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With-Profits sub-fund.

Other life and pensions products are generally written from the Non-Profit sub-fund. Examples include unit-linked policies, annuities, term assurances and health insurance (under which a predetermined amount of benefit is payable in the event of an insured event such as being unable to work through sickness). The benefits provided by linked policies are wholly or partly determined by reference to a specific portfolio of assets known as unit-linked funds.

During 2007, Lloyds TSB Group sold Abbey Life, the UK life operation which was closed to new business in 2000.

#### *General insurance*

Lloyds TSB Insurance provides general insurance through the retail branches of Lloyds TSB Bank, Lloyds TSB Scotland and C&G, and through a direct telephone operation and the internet. Lloyds TSB Insurance is one of the leading distributors of household insurance in the UK.

#### *Scottish Widows Investment Partnership*

Scottish Widows Investment Partnership manages funds for Lloyds TSB Group's retail life, pensions and investment products. Clients also include corporate pension schemes, local authorities and other institutions in the UK and overseas.

#### ***Wholesale and International Banking***

Wholesale and International Banking provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages Lloyds TSB's activities in financial markets through its treasury function and provides banking and financial services overseas.

During 2007, the Lloyds TSB Group completed the sale of Lloyds TSB Registrars and The Dutton-Forshaw Group, two of Wholesale and International Banking's businesses.

#### *Corporate Markets*

Combining the respective strengths of some 3,000 people in Corporate Banking and Products and Markets, Corporate Markets plays an integral role in leveraging and expanding the Lloyds TSB Group's customer franchise and building deep, long-lasting relationships with around 26,000 corporate customers.

Corporate Banking manages the core customer franchise, providing a relationship-based financial and advisory service to the corporate market place. This is delivered through dedicated regional teams throughout the UK and key strategic locations abroad, including New York. Customers have access to expert advice and a broad range of financial solutions. Relationship Managers act as a conduit to product and service partners in Corporate Markets and other parts of the Lloyds TSB Group. Lloyds Development Capital, the Lloyds TSB Group's captive private equity arm, also reports through the Corporate Bank.

Products and Markets is where the specialist product capability resides for both the corporate relationship customers and certain other customers of the Lloyds TSB Group. It offers customers a wide range of finance and capital solutions, and also provides tailored risk management solutions and structured solutions across all areas of risk. These areas include foreign exchange, interest rates, credit, inflation and commodities on behalf of the Lloyds TSB Group. Additionally, Products and Markets fulfils the treasury role for Lloyds TSB Group including the management of balance sheet liquidity.

#### *Commercial Banking*

Commercial Banking serves nearly one million customers across the UK from one-person start-ups to large, established enterprises. The expanded business focuses on providing banking facilities and solutions to customers with business turnover up to £15 million per annum, and incorporates the invoice discounting and factoring subsidiary, Lloyds TSB Commercial Finance, through which Lloyds TSB Group provides specialised working capital finance for its customers. Commercial Banking continues to build its market share of high value customers as a result of continued progress in attracting customers "switching" from other financial services providers. The main activity of The Agricultural Mortgage Corporation is to provide long-term finance to the agricultural sector.

### *Asset Finance*

The Lloyds TSB Group's asset finance businesses provide individuals and companies with specialist personal lending, store credit and finance, including motor finance. Black Horse Consumer Finance, including the Retail and Motor businesses, acquire largely non Lloyds TSB franchise customers through Point of Sale (POS) credit creating the opportunity to sell Black Horse personal loans subsequently. Asset Finance is also the Group's provider of contract hire vehicles through Lloyds TSB Autolease. Asset Finance has approximately 3,650 staff throughout the UK, over 1.7 million individual customers and relationships with some 16,800 companies and small businesses.

### *International Banking*

Lloyds TSB Group has continued to shape its international network to support its UK operations. Its overseas banking operations include offices in the UK, the Channel Islands, the Isle of Man, Dubai, Hong Kong, Spain, France, Switzerland, Luxembourg, Belgium, Netherlands, Monaco, Gibraltar, Cyprus, South Africa, Japan, Singapore, Malaysia, China and the US. The business provides a wide range of private and retail banking, wealth management and expatriate services to local island residents, UK expatriates, foreign nationals and to other customers and also serves the corporate and institutional market in a number of these locations.

## **Competitive Environment**

The Lloyds TSB Group's key markets are in the UK, in both the retail and wholesale financial services sectors, where the markets are relatively mature. Retail banking markets have shown strong rates of growth in recent years, but have slowed in 2008 as a result of low consumer confidence, a squeeze on household spending power, the withdrawal of some competitors from the mortgage market and a sharply lower housing market. The markets for life, pensions and insurance products are expected to grow over time in a number of key areas although the weakness of stock markets in 2008 will in the short term limit demand for equity-based products. The fragmented nature of the life, pensions and insurance market in the UK has resulted in some consolidation within certain product sectors, although the overall share of new business of the top ten providers fell slightly in 2007. In the general insurance sector, the long-term trend of consolidation amongst underwriters and brokers continues, while distribution remains fragmented through growth in the number of affinity partnerships. Wholesale markets showed strong growth until mid-2007, since when the ongoing dislocation of global capital markets and growing concern about economic prospects has had a severe impact. Slower growth is now evident and this trend is likely to intensify going forward, together with a return to more normal levels of bad debt from recent cyclical lows.

The Lloyds TSB Group's competitors include all the major financial services companies operating in the UK. In the retail banking market, the Lloyds TSB Group competes with banks and building societies, major retailers and internet-only providers. In the mortgage market, competitors include the traditional banks and building societies and specialist providers, although some of these have had to reduce their business activity or exit as a result of capital and funding constraints. In the wholesale banking market, the Lloyds TSB Group competes with both UK and foreign financial institutions; in asset finance the main competition comes from other banks and specialised asset finance providers; and in the insurance market, competitors include bancassurance, life assurance and general insurance companies operating in the UK.

The current dislocation in global capital markets has been the most severe examination of the banking system's capacity to absorb sudden significant changes in the funding and liquidity environment for many years and individual institutions have faced varying degrees of stress. Many competitors have reacted to short-term funding concerns by withdrawing products and/or tightening lending criteria. Lloyds TSB Group expects these conditions to continue throughout the remainder of 2008 and in 2009.

## **Regulation and Supervision in the United Kingdom**

### *Overview of UK Regulation*

The Lloyds TSB Group and the HBOS Group are subject to the financial regulation and supervisory regime in the United Kingdom. Non-financial companies within the Lloyds TSB Group and the HBOS Group (such as investment and insurance companies) are also subject to their appropriate regulatory and supervisory regimes. Responsibility for banking, insurance, investment and other financial services supervision in the United Kingdom rests with the FSA. The FSA's powers and responsibilities are derived from the FSMA. The FSA has responsibility for: (i) regulating and authorising all businesses carrying on regulated activities in the UK (which currently includes all forms of deposit taking, investment activity, mortgages and insurance business); (ii) regulating and authorising unit trusts and open ended investment companies; and (iii) recognising and

supervising markets and investment exchanges. The Lloyds TSB Group's ability to conduct its business is dependent upon its retention of its regulatory licences with the FSA.

The FSA is required to observe and pursue four statutory objectives: (i) to maintain confidence in the UK financial system; (ii) to promote public understanding of the financial system; (iii) to secure the right degree of protection for consumers; and (iv) to reduce financial crime.

#### *Banking supervision in the UK*

Deposit taking business is a regulated activity under the FSMA. The FSA is broadly empowered to request information from and give directions to banks and also sets standards that serve as guidelines for banks under its supervision. Each bank is obliged to submit regular reports to the FSA which provide material for supervisory assessment. The approach adopted by the FSA in supervising banks is risk based with the objectives of: (i) systematic assessment of whether a bank meets FSMA authorisation criteria; (ii) understanding the quality of the management and the risks banks face; (iii) using appropriate supervisory tools to identify risks such as skilled persons' reports on internal controls; and (iv) allocating resources proportionate to risk by focusing on banks with a high risk profile.

The FSA may also obtain independent confirmation from skilled persons as to the accuracy of accounting records and prudential returns and the adequacy of internal controls.

#### *European Commission Directive on Consumer Credit*

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council of the European Union on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers.

This proposal has now become the Consumer Credit Directive, the text of which was finally approved by the European Parliament in January 2008 after many years of negotiation. The Directive was approved by the European Council in April 2008 and published in the Official Journal on 22 May 2008. The UK Government has a period of two years in which to implement the Directive, meaning that it is currently estimated that this will happen sometime in the spring of 2010.

In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008 the Advanced Measurement Approach for Operational Risk.

#### *Insurance business supervision*

Effecting and carrying out contracts of insurance is a regulated activity under the FSMA. The FSA's powers in regulating insurance business are equivalent to those described in relation to the supervision of banking business.

#### *Financial services supervision*

Aspects of the Lloyds TSB Group's and the HBOS Group's business activities such as advising on, dealing in or managing investments such as bonds, money market derivative products and equities and also the sale of personal financial services and investments, undertaken through bank branches and other business channels (e.g. telephone and online banking), are regulated by the FSA.

Accordingly, companies within the Lloyds TSB Group and the HBOS Group carrying on these businesses are subject to the regulation of the FSA. FSA regulation on mortgages and mortgage advice was introduced on 31 October 2004, with sales of general insurance by intermediaries coming under FSA regulation on 14 January 2005.

#### *Financial Services Compensation Scheme*

FSMA introduced the Financial Services Compensation Scheme which combines the functions of previous compensation schemes. From 7 October 2008, under this compensation scheme and subject to the rules of the scheme, eligible deposit claimants have been entitled to receive 100 per cent. compensation for financial loss up to £50,000. The limits in respect of investment business and mortgage advice and arranging claims are £48,000 (100 per cent. of the first £30,000 and 90 per cent. of the next £20,000), and in respect of insurance claims are 100 per cent. of the first £2,000 and 90 per cent. of the remainder of the claim (except compulsory insurance for

which it is 100 per cent. of the claim). These levels of compensation may vary over time and may differ from those applicable to claims in respect of firms in other jurisdictions.

The European Commission has proposed to amend the Directive on Deposit Guarantee Schemes (1994/19/EC) to increase the minimum level of coverage for deposits from €20,000 to €100,000 within one year, and initially to €50,000 in the intervening period. The payout period in the event of bank failure will be reduced from three months to three days. The coverage level of €50,000 would apply from 15 October 2008 and all other provisions will be effective as of 31 December 2008.

Further information relating to the Financial Services Compensation Scheme is set out in paragraph 3 ("*Financial Services Compensation Scheme*") of Part V ("*Update on the Acquisition and the Placing and Open Offer, Payment Protection Insurance and Certain Other Matters*") on page 11 of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein.

#### *Capital adequacy*

Lloyds TSB, HBOS, and certain members of the Lloyds TSB Group and the HBOS Group respectively, are subject to capital adequacy guidelines adopted by the FSA for a bank or a bank holding company, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis and on a solo-consolidated basis expressed as a percentage.

The risk-adjusted capital guidelines (the **Basel Accord**) promulgated by the Basel Committee on Banking Supervision (the **Basel Committee**), which form the basis for the FSA's capital adequacy guidelines, have been revised and implemented in the UK with effect from 1 January 2007 (**Basel II**). The principal changes effected by the revised guidelines include a range of options to determine risk-weighting. In this regard, for credit risk Lloyds TSB have adopted the Foundation Internal Ratings Based approach for its non retail exposures and the Advanced (Retail) Internal Ratings Based approach for its retail exposures and with effect from 1 January 2008, the Advanced Measurement Approach for Operational Risk. HBOS has adopted the Advanced Internal Ratings Based Approach (for Credit Risk) and the Advanced Measurement Approach (for Operational Risk) with effect from 1 January 2008, following a year of parallel running of these approaches. Certain HBOS portfolios remain on the standardised approach with agreement with the FSA of a timetable for further roll out of credit risk models over the next two years. Under Basel II, capital requirements are inherently more volatile than under previous regimes and will increase if economic conditions or default trends worsen.

The Lloyds TSB Group's and the HBOS Group's banking businesses outside the UK are subject to the capital adequacy regimes of those jurisdictions, some of which will implement Basel II on a longer time frame.

The Lloyds TSB Group's and the HBOS Group's life assurance and general insurance businesses in the UK are also subject to the risk-based capital requirements prescribed by the FSA, and the HBOS Group's life and general insurance companies outside the UK are subject to local regulatory capital requirements. In July 2007, the European Commission published a draft proposal for primary legislation to define broad "framework" principles for Solvency II, a fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a revised set of EU-wide capital requirements where the required regulatory capital will be dependent upon the risk profile of the entities, together with risk management standards, that will replace the current Solvency I requirements. At this early stage of development, it is not possible to predict the ultimate impact of this proposed regime on the Lloyds TSB Group's, the HBOS Group's or the Enlarged Group's capital. However, the final regime could significantly impact the capital the Lloyds TSB Group's and the HBOS Group's life assurance and general insurance businesses are required to hold.

The Lloyds TSB Group's and the HBOS Group's failure to maintain adequate capital ratios may result in administrative actions or sanctions against the Lloyds TSB Group or the Enlarged Group which may have a material adverse impact on the Lloyds TSB Group's and the Enlarged Group's business, financial position and results of operations.

#### *The Bank of England*

The Bank of England has the task of ensuring stability in the financial markets which it undertakes in co-operation with the FSA. The agreed framework for co-operation in the field of financial stability is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England is responsible for the overall stability of the financial system as a whole, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems at home and abroad; and (iii)

maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board.

#### *UK Government*

The UK Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury about possible problems, for example where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

In order to deal with the crisis caused by the failure of Northern Rock, the BSP Act was enacted on an expedited basis in February 2008, when it became apparent that it would not be possible to achieve a private sector sale of Northern Rock plc which would adequately protect taxpayers' and consumers' interests. The key provisions of the BSP Act are subject to a sunset clause and are due to expire in February 2009. The BSP Act confers on HM Treasury various powers including, for example, the power to take UK deposit-taking institutions into temporary public ownership by way of the compulsory transfer of the securities or property of such UK deposit-taker to the Bank of England, a nominee of HM Treasury, a company wholly owned by the Bank of England or HM Treasury, or to any other company. The powers under the BSP Act have been exercised in relation to Northern Rock, Bradford and Bingley, Heritable Bank and Kaupthing, Singer and Friedlander.

Lloyds TSB understands that HM Treasury has been working with the Bank of England and the FSA (collectively, the **Tripartite Authorities**) in developing proposals for a permanent set of measures to replace the BSP Act. In October 2008, following a process of consultation, the Banking Bill was introduced to Parliament. The Bill sets out the permanent measures which are designed to achieve a number of key policy priorities, including reducing the likelihood, and impact, of individual banks failing.

In particular, the measures include a special resolution regime (the **SRR**), which will provide the Tripartite Authorities with significant new tools for facilitating the resolution of a failing bank before it becomes insolvent. These tools consist of three "stabilisation options", which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions set out in the FSA Handbook and cannot be assisted through normal regulatory action or marketbased solutions. The stabilisation options comprise powers to transfer the property, assets and liabilities (**Bank property**) or the securities of a failing bank to a private sector purchaser; the Bank property of a bank to a "bridge bank" controlled by the Bank of England; or the securities of a bank into temporary public ownership. In addition, the Bill provides for a special bank insolvency procedure, which may be triggered at existing insolvency thresholds and provides a mechanism to enable fast and orderly Financial Services Compensation Scheme payments and minimise the risk of a run on a bank. The Bill also makes provision for the "bank administration procedure" which is a special form of insolvency which may be used where only part of a failing bank is transferred to a bridge bank, a private sector purchaser or by way of an onwards transfer from temporary public ownership, leaving behind an insolvent "residual company".

The details of this regime and possible other proposals have not been fully developed and so it is not clear how they would operate in practice and how they would impact the relationship between the Bank of England, HM Treasury and the FSA. Changes to the Memorandum of Understanding referred to above may also be required.

Further information relating to the BSP Act and the proposed Banking Bill is set out in paragraph 3.2 of the section entitled "*Risk Factors - Risk Factors relating to the Lloyds TSB Group*" contained in this document.

#### *Data protection*

Members of the Lloyds TSB Group and the HBOS Group in the UK which hold, control and/or process data relating to identifiable individuals are subject to the UK data protection regime, consisting principally of the Data Protection Act 1998 and subordinate legislation made thereunder. The UK data protection regime is supervised by the Information Commissioner. The regime imposes limitations on the manner in which, and the extent to which, persons controlling personal data can hold, process and transfer that data to third parties, including between members of the same group of companies. Similar data protection and security requirements apply to members of the respective groups carrying on business in EEA member states other than the UK.

#### *Retail Distribution Review*

As a part of its Treating Customers Fairly initiative, the FSA announced a Retail Distribution Review (**RDR**) in June 2006 with the aim of identifying measures that would increase consumer confidence in the retail market and encourage more frequent use of its products and services. Following discussions with stakeholders, the FSA

published a Discussion Paper in June 2007, followed by an Interim Report in April 2008 and a Feedback Statement in November 2008. The FSA intends to continue to develop its thinking in this area in consultation with all relevant stakeholders. No firm proposals will be known for at least several months and no assessment of the ultimate potential outcome for the Lloyds TSB Group or the HBOS Group is possible at this time.

#### *UK Competition Commission investigation of payment protection insurance*

The Competition Commission is formally investigating the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK. Various members of the Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multiyear PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group and the Enlarged Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group or the Enlarged Group, as appropriate, were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

***Fairness of current account overdraft charges***

In April 2007, the OFT commenced an investigation into the fairness of current account 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.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July 2008 to consider whether the financial institutions' historic terms and conditions are similarly not capable of being penalties, and to consider whether their historic terms are assessable for fairness. On 8 October 2008, the High Court issued its group judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations and any Appeal Court determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

***Interchange Fees***

The European Commission has adopted a formal decision finding that an infringement of EC 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 EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (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 EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The

ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

### ***Personal current accounts***

In April 2007, the OFT launched a market study into personal current accounts which resulted in a report that was published on 16 July 2008. The OFT stated that it had found evidence of competition in the personal current account market. Banks could also demonstrate high consumer satisfaction and low fees on the more visible elements of current accounts – such as withdrawals from ATMs. Internet and telephone banking have also made it easier for consumers to manage their accounts. However, the OFT concluded that the personal current account market as a whole is not working well for consumers. A combination of complexity and a lack of transparency means that consumers and competition are focused almost exclusively on more visible fees and not on the less visible elements, such as insufficient funds charges and foregone interest – despite the fact that these make up the vast bulk of banks' revenues. For insufficient fund charges, this effect is exacerbated by a lack of simple mechanisms to control, or opt out of, an unarranged overdraft. Furthermore, a significant proportion of consumers believe that it is complex and risky to switch accounts, with the result that switching rates are very low.

The OFT invited comments from interested parties, with a deadline for responses of 31 October 2008. It has in particular highlighted the low levels of transparency and switching and complexity of charges as issues upon which it would welcome comments together with potential measures to address those issues. The OFT has indicated that, depending upon the outcome of the consultation, it may publish a further or final report early in 2009. Its objective is to produce recommendations that the banking industry, in consultation with government and other relevant stakeholders, will take forward. Failing resolution of its concerns by that means, the OFT has indicated that it would consider alternative remedies including changes to the Banking Code, recommendations to government or regulatory bodies or a market reference to the Competition Commission.

### ***Continuing review of certain markets***

In the Secretary of State's announcement on 31 October 2008 that the Acquisition would not be referred to the Competition Commission (noted in paragraph 2.4 of the section entitled "*Risk Factors - Risk Factors relating to the Lloyds TSB Group*" contained in this document), he said that, in view of the fact that there were some concerns about the possible effects of the Acquisition on competition, he was asking the OFT to keep the relevant markets under review in order to protect the interests of UK consumers and the British economy.

The concerns to which the Secretary of State referred are identified in the OFT's report to him on the effects of the Acquisition on competition. The OFT's concerns relate to three markets, namely personal current accounts, SME banking (primarily in Scotland) and mortgages. The OFT stated that it was not required to reach a definite conclusion as to the competitive effects of the Acquisition. Rather, it was only required to conclude whether the test for reference of the Acquisition to the Competition Commission was satisfied. Applying that test, the OFT concluded that it believed there to be a realistic prospect that the Acquisition may give rise to a substantial lessening of competition in the three markets identified. It was by no means a foregone conclusion, the OFT said, that, in the event of a reference, the Competition Commission would find that, on a balance of probabilities, the Acquisition would give rise to a substantial lessening of competition in any of those markets.

In relation to the personal current account market, the OFT's assessment follows closely the analysis and conclusions in the market study that it published in July 2008 (see preceding section). In the context of a market that, in the OFT's opinion, is not working well for consumers, the OFT said that there was a realistic prospect that, by reason of the Enlarged Group's greater market share, it would have a lesser incentive to reduce prices or raise standards of quality and service to established customers.

In relation to SME banking, the OFT's assessment mirrored that applied to the personal current account market. It was particularly concerned about the possible effects of the Acquisition in Scotland where the Enlarged Group and Royal Bank of Scotland plc would together account for a substantial proportion of SME banking. The OFT also said that it could not exclude the risk of adverse effects in other local markets.

In relation to mortgages, the OFT said that its concerns were more marginal. Prior investigations (notably the Competition Commission's investigation of Lloyds TSB's proposed acquisition of Abbey National in 2001) had concluded that the mortgage market was competitive. However, the OFT observed that, under current conditions, the mortgage market may be tighter than it was with higher barriers to entry and greater obstacles to customer switching: under such conditions, the combination of the largest and third largest mortgage providers was significant enough to cause concern.

The OFT also assessed the impact of the Acquisition on other markets (wealth management savings, personal loans, credit cards, pensions, banking services to large corporations, treasury and capital markets, asset finance/fleet car hire, life insurance and general insurance) and concluded that it did not raise competition concerns in any of those markets. The market for payment protection insurance is currently under investigation by the Competition Commission which has proposed a number of possible remedies to address adverse effects on competition that it has identified in the market: the OFT concluded that, given the present factual situation and the uncertain effect of the Competition Commission's possible remedies, it could not be said that there was a reasonable prospect that the Acquisition would result in a substantial lessening of competition in that market.

The OFT has not yet indicated what steps it will take to keep the relevant markets under review. In relation to personal current accounts, however, it is to be expected that those steps will consist of a continuation of the process initiated by the market study (discussed above).

### ***The European Commission***

On 10 January 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non-card) payment systems and current accounts and related services. The Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments. High degrees of variation of prices, profit margins and selling patterns between Member States and high degrees of homogeneity within Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fee for payment cards, co-branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co-operation among banks, including savings and co-operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and
- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

Some of these concerns have already been addressed, at least in part. For example, following the interim report being published, the Commission met with Austrian banks who agreed to review arrangements for setting interchange fees and announced that a reduction can be expected. In Portugal, issuers and acquirers have met some of the concerns raised in the report by reducing domestic interchange fees and removing preferential bilateral domestic interchange fees. The establishment of a Single Euro Payments Area (SEPA) is also seen as a method of remedying some of the competition concerns raised in the report. Since 1 January 2008, banks have been able to make the first SEPA products available and are aiming to make SEPA a reality for all customers by the end of 2010.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co-operation (in respect to which the Commission indicated that it intended to gather more information before acting).

Since the Final Report was published, the Commission has adopted three decisions affecting payment card services. On 3 October 2007, the Commission fined Visa International and Visa Europe €10.2 million for refusing to admit Morgan Stanley as a member from March 2000 to September 2006. In a decision of 17 October 2008, the Commission concluded that the Groupement des Cartes Bancaires infringed Article 81 of the Treaty by adopting price measures hindering the issuing of cards in France at competitive rates by certain member banks, thereby keeping the price of payment cards artificially high and thus favouring the major French banks. On 19 December 2007, the Commission adopted a decision prohibiting MasterCard's multilateral interchange fees for cross-border card payments with MasterCard and Maestro consumer credit and debit cards between Member States of the European Economic Area (intra-EEA MIFs).

In addition, a number of EU directives, including the Unfair Commercial Practices Directive, Acquisitions Directive and the Payment Services Directive are currently being implemented in the UK. The EU is also considering regulatory proposals for, inter alia, Consumer Credit, Mortgage Credit, Single European Payments Area, Retail Financial Services Review and capital adequacy requirements for insurance companies (Solvency II).

### ***International Regulation***

Certain entities within the Lloyds TSB Group and the HBOS Group are also subject to the supervision of international regulators, including the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and various state regulators in the United States, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority in Australia, the Irish Financial Regulator in the Republic of Ireland and the Irish Financial Regulator and the FSA in Northern Ireland.

### ***Recapitalisation of financial institutions***

The global financial system has recently experienced an unprecedented degree of volatility. The UK Government has announced recently a package of measures to address the current instability in the financial markets, which include a recapitalisation scheme for the UK banking sector. As part of the recapitalisation scheme, HM Treasury is underwriting, and may acquire, a significant shareholding in certain financial institutions issued under placings and open offers. HM Treasury has announced that its intention is to return to the private sector its holdings in the financial institutions participating in the recapitalisation scheme as soon as feasibly possible. The new HM Treasury preference shares are being issued by Lloyds TSB Group plc to HM Treasury as part of the recapitalisation scheme.

## **Capital, Liquidity and Funding Arrangements**

### *Overview*

Capital risk is defined as the risk that the Lloyds TSB Group has insufficient capital to absorb any losses or that the capital structure is inefficient. An exposure would arise if the Lloyds TSB Group had insufficient regulatory capital resources to support its strategic objectives and plans, or to meet external stakeholder requirements and expectations.

Liquidity risk is defined as the risk that the Lloyds TSB Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. Funding risk is further defined as the risk that the Lloyds TSB Group does not have sufficiently stable and diverse sources of funding or that funding structure is inefficient. An exposure would arise if the amount of potential outflows in any future period less committed inflows in that period is such that the Lloyds TSB Group is unable to meet its financial obligations as they fall due, or can meet them by securing funds only at excessive cost.

### *Capital Arrangements*

The effective management of capital and risk remains central to Lloyds TSB's strategy. Lloyds TSB continues to be focused on the maintenance of a strong capital base, to ensure this base expands appropriately and to utilise capital efficiently throughout Lloyds TSB's activities to both maintain a prudent relationship between the capital base and the underlying risks of the business and also optimise returns to shareholders. It is intended that this same approach will apply in the Enlarged Group. In the pursuit of this focused approach to capital and risk management, Lloyds TSB follows the supervisory requirements of the FSA. During 2008, the key focus of capital adequacy has shifted to the ratio of core Tier 1 capital to risk-weighted assets. At 30 June 2008 Lloyds TSB had a core Tier 1 ratio of 6.2 per cent.

In the context of continued turbulence and uncertainty in financial markets, combined with the deteriorating global economic outlook, the Lloyds TSB Board believes it is essential to maintain higher levels of capital in order to ensure the Enlarged Group remains resilient to any further shocks to the financial system and that it

remains competitive. Upon completion of the Placing and Open Offer, Lloyds TSB will issue approximately 2.6 billion Open Offer Shares in accordance with the terms of the Placing and Open Offer Agreement and HBOS will issue approximately 7.5 billion HBOS Open Offer Shares in accordance with the terms of the HBOS Placing and Open Offer Agreement (which will as a result of the Acquisition be exchanged into approximately 4.5 billion Lloyds TSB Shares), raising in aggregate approximately £13 billion. The fair value of these new shares is £11.8 billion based on the Closing Price of the Lloyds TSB Shares of 166 pence per share on 14 November 2008, the last practicable date prior to the date of publication of the Lloyds TSB Placing and Open Offer Prospectus. Upon completion of the Acquisition and the Placing and Open Offer, Lloyds TSB will also issue 1 million New Preference Shares with an aggregate liquidation preference of £1 billion to HM Treasury in accordance with the terms of the Preference Share Subscription Agreement, and HBOS will issue 3 million New HBOS Preference Shares with an aggregate liquidation preference of £3 billion to HM Treasury in accordance with the terms of the HBOS Preference Share Subscription Agreement, such issues raising in aggregate approximately £4 billion. Based on published information at 30 June 2008, and taking into account Lloyds TSB's equity placing completed on 19 September 2008, the Placing and Open Offer, HBOS' rights issue announced on 29 April 2008 and the HBOS Placing and Open Offer, Lloyds TSB estimates that the Enlarged Group would have had a core Tier 1 ratio of 8.8 per cent. at 30 June 2008. Lloyds TSB has made a preliminary assessment that net negative capital adjustments of no more than £10 billion after tax would need to be made to HBOS' financial position for core Tier 1 capital purposes as a result of the Acquisition, the effect of which would mean that the Enlarged Group would have a core Tier 1 ratio in excess of 7 per cent.

#### *Liquidity and Funding Arrangements*

Within Lloyds TSB, the liquidity management framework focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the maturity mismatch of assets and liabilities across the balance sheet, as well as from undrawn commitments and other contingent obligations. The aim of Lloyds TSB's balance sheet structure management is to maintain substantial diversification, minimise concentration across Lloyds TSB's various deposit sources and control the level of reliance on total short-term wholesale sources of funds (both secured and unsecured). As part of Lloyds TSB's planning process, it regularly reviews the forecast structure of its balance sheet over the planning period, and updates the funding plan as appropriate. In addition, Lloyds TSB continuously monitors the level of large deposits taken from individual bank, corporate, non-bank financial institution and other customer types and also reviews the significant cash outflows therefrom to monitor concentration and trends. Lloyds TSB operates within the context of a full suite of liquidity metrics to ensure that the Lloyds TSB Group is within the liquidity risk appetite set by the Lloyds TSB Board.

During 2008, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in an attempt to improve liquidity within their respective banking systems. In September and October, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds TSB and HBOS operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Special Liquidity Scheme, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Lloyds TSB and HBOS, operate. Lloyds TSB believes the Enlarged Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by the Enlarged Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, the Enlarged Group will continue to draw on the Special Liquidity Scheme, and will take advantage of the guaranteed funding provided by HM Treasury. See paragraph 1.5 of the section headed "*Risk Factors - Risk Factors relating to the Lloyds TSB Group*" contained in this document.

As discussed above, the global markets for short, medium, and long term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme

for senior funding) and the Bank of England (via the extended Long Term Repo facility, and the new Discount Window facility) in order to provide further assurance of liquidity support for the markets. The Enlarged Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

## **Legal actions**

### ***1. UK Competition Commission investigation of payment protection insurance***

The Competition Commission is formally investigating the supply of Payment Protection Insurance (PPI) services (except store card PPI) to non-business customers in the UK. Various members of the Lloyds TSB Group underwrite PPI, while other members of the Lloyds TSB Group distribute PPI, by offering it for sale with various of the credit products which they supply.

On 5 June 2008, the Competition Commission issued its provisional findings, to the effect that there are market features which prevent, restrict or distort competition in the supply of PPI to non-business customers, with an adverse effect on competition and with resulting detriments to consumers.

On 13 November 2008, the Competition Commission issued its provisional decision as to what remedies it proposes to adopt to address the adverse effects on competition identified in its provisional findings, on the assumption that it decides to adopt, in its final report, the provisional findings outlined in its publication of 5 June 2008. In summary, the Competition Commission has provisionally decided to adopt the following remedies: (i) a prohibition on the active sale of PPI by a distributor to a customer within 14 days of the distributor's sale of credit to that customer. However, customers may pro-actively return to the distributor to initiate a purchase by telephone or online from 24 hours after the credit sale; (ii) a requirement on all PPI providers to provide certain information and messages in PPI marketing materials, and a requirement on distributors to advertise personal loan PPI and second mortgage PPI in close proximity to their respective credit advertisements; (iii) a requirement on all PPI providers to provide certain information on PPI policies to the FSA; (iv) a recommendation to the FSA that it use the information provided under the requirement in (iii) to populate its PPI price comparison tables; (v) a requirement on distributors to provide an annual statement for PPI customers containing information on their PPI policy and what it costs; and (vi) a prohibition on the levying by distributors of payments for PPI on a single premium basis. Instead, distributors will be permitted to charge only regular premiums at a constant rate, paid monthly or annually. This remedy would therefore preclude the selling of multi-year PPI policies for a single premium.

The Competition Commission invited comments on its proposed remedies by 4 December 2008.

The Competition Commission is expected to adopt its final report by February 2009. The final report will contain the Competition Commission's final decision on the competition issues addressed in its provisional findings and the remedies to be adopted to address any adverse competition effects which the report identifies. After adoption of the report, it will be open to the Competition Commission to adopt statutory orders implementing the remedies included in its final report. Whilst the impact of the final remedies as a whole remains uncertain, if the provisional remedies were to be adopted in any statutory orders this could have a significant adverse impact on the level of sales and thus the revenue generation and profitability of the payment protection insurance products which the Lloyds TSB Group offers its customers, but the ultimate impact would be determined by a number of factors including the extent to which the Lloyds TSB Group were able to mitigate the potentially adverse effects of such statutory changes through restructuring the payment protection products which it offers its customers and/or developing alternative products and revenue streams.

On 1 July 2008 the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. The Lloyds TSB Group and other industry members and trade associations have made submissions to the FSA regarding this referral. The matter was considered at the FSA Board meeting on 25 September 2008. The Lloyds TSB Group is awaiting further developments.

On 30 September 2008 the FSA published a statement arising from its ongoing thematic review of PPI sales. In the statement, which was directed at the industry generally, the FSA highlighted certain concerns and indicated that it was escalating its regulatory intervention and considering appropriate action to deal with ongoing non-compliant sales practices and to remedy non-compliant past sales. The FSA plans to publish an update on the third phase of the thematic work in the first quarter of 2009.

## **2. UK Office of Fair Trading**

### *2.1 The following reviews and inquiries are being carried out:*

In April 2007, the UK Office of Fair Trading (**OFT**) commenced an investigation into the fairness of current account 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.

On 27 July 2007, following agreement between the OFT and eight UK financial institutions, the OFT issued High Court legal proceedings against those institutions, including the Lloyds TSB Group and the HBOS Group, to determine the legal status and enforceability of certain of the charges applied to their personal customers in relation to requests for unplanned overdrafts. On 24 April 2008, the High Court ruled on the preliminary issues of whether the financial institutions' terms and conditions in relation to unplanned overdraft charges are capable of being assessed for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 or are capable of amounting to penalties at common law. The High Court determined, in relation to the financial institutions' current terms and conditions, that the relevant charges are not capable of amounting to penalties but that they are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. On 23 May 2008, the Lloyds TSB Group and the HBOS Group, along with the other relevant financial institutions, were given permission to appeal the finding that unplanned overdraft charges are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999. The appeal hearing commenced on 28 October 2008 and concluded on 5 November 2008. The judgment is awaited.

A further hearing was held on 7 to 9 July to consider whether the financial institutions' historical terms and conditions are similarly not capable of being penalties, and to consider whether their historical terms are assessable for fairness. On 8 October 2008, the High Court issued its judgment broadly holding that these unplanned overdraft charges are assessable for fairness but are not capable of being penalties, although it invited clarification from a number of banks, including the Lloyds TSB Group, before making any formal ruling on their historical terms and conditions. A further hearing was held on 9 December 2008 to enable Lloyds TSB Group and the other relevant banks to provide such further clarification. The judgment from this hearing is also awaited. Subject to the outcome of any appeal in relation to whether the charges are assessable for fairness, it is expected that there will be further substantive hearings to establish whether the charges are fair. If various appeals are pursued, the proceedings may take a number of years to conclude.

On 16 July 2008, the OFT released a report following the market study referred to above. The OFT is now engaging in a period of consultation. The OFT has stated that at the conclusion of the consultation period, it will publish a summary of the responses received, and that it will then aim to publish a further or final report in early 2009 which will contain recommendations for the banking industry.

The FSA has agreed, subject to certain conditions, that the handling of customer complaints on this issue can be suspended until the earlier of either conclusion of the proceedings or 26 January 2009, subject to any renewal or extension which the FSA may agree. Cases before the Financial Ombudsman Service and the County Courts are also currently stayed pending the outcome of the legal proceedings initiated by the OFT. The Lloyds TSB Group intends to continue to defend its position strongly. Accordingly, no provision in relation to the outcome of this litigation has been made. Depending on the High Court's determinations, a range of outcomes is possible, some of which could have a significant financial impact on the Lloyds TSB Group and the HBOS Group. The ultimate impact of the litigation on the Lloyds TSB Group or the Enlarged Group can only be known at its conclusion.

### *2.2 Interchange Fees*

The European Commission has adopted a formal decision finding that an infringement of EC competition laws has arisen from arrangements whereby MasterCard issuers charged a uniform fallback interchange fee in respect of crossborder 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 EEA. This decision has been appealed to the European Court of First Instance. The Lloyds TSB Group and the HBOS Group (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 EC competition laws. Meanwhile, the European Commission and the UK's Office of Fair Trading are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe EC and/or UK competition laws. As part of this initiative the OFT will also intervene in the Court of First Instance appeal supporting the European Commission position. The ultimate impact of the investigations on the Lloyds TSB Group or the Enlarged Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

### 2.3 Continuing Obligations

The Issuer intends to comply with its obligations as a company with securities admitted to the Official List in connection with further disclosures in relation to the impact of the reviews and inquiries being conducted by the UK Office of Fair Trading as disclosed above on the Issuer.

### 3. Office of Foreign Assets Control

There has been increased scrutiny of the financial institutions sector, especially in the US, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. The Office of Foreign Assets Control (**OFAC**) administers US laws and regulations in relation to US economic sanctions against designated foreign countries, nationals and others and the Lloyds TSB Group has been conducting a review of its conduct with respect to historical US dollar payments involving countries, persons or entities subject to those sanctions. The Lloyds TSB Group has provided information relating to its review of such historical payments to a number of authorities including OFAC, the US Department of Justice and the New York County District Attorney's office which, along with other authorities, have been reported to be conducting a broader review of sanctions compliance by non-US financial institutions. The Lloyds TSB Group is included in ongoing discussions with these and other authorities with respect to agreeing a resolution of their investigations. Discussions have advanced towards resolution and the Lloyds TSB Group provided £180 million in respect of this matter in the first half of 2008.

#### Recent Developments

- On 30 July 2008, Lloyds TSB Group plc published its 2008 Company Interim Results and the Issuer published its Interim Management Report for the half-year to 30 June 2008. Certain recent developments referred to in the 2008 Company Interim Results are described below (compared to the first half of 2007):
  - On a statutory basis, profit before tax for the first half of 2008 fell by 70 per cent to £599 million which was largely resultant of the impact of market dislocation and volatility relating to the Group's insurance businesses.
  - At the end of June 2008, the Group had a total capital ratio on a Basel II basis of 11.3 per cent, a tier 1 ratio of 8.6 per cent and a core tier 1 ratio of 6.2 per cent.
- On 18 September 2008, Lloyds TSB Group plc published the Acquisition Announcement. A copy of the Acquisition Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 18 September 2008, Standard & Poor's published a ratings update placing the Issuer's 'AA' long-term counterparty credit rating and Lloyds TSB Group plc's 'AA/A-1+' long- and short-term counterparty credit ratings on CreditWatch with negative implications and affirming the Issuer's 'A-1+' short-term counterparty credit rating.
- On 18 September 2008, Moody's Investor Services Limited published a ratings update placing the Issuer's 'B+' financial strength rating, its 'Aaa' senior debt and long-term deposit ratings and Lloyds TSB Group plc's 'Aa1' senior debt rating on review for possible downgrade and affirming the Issuer's 'P-1' short term rating.
- On 18 September 2008, Fitch Ratings Ltd published a ratings update placing the Issuer's long-term issuer default rating and senior unsecured debt ratings of 'AA+', its individual rating of 'A' and its subordinated debt ratings of 'AA' on Rating Watch Negative and affirming each of the Issuer's short-term issuer default rating at 'F1+', its Support Rating at '1' and its Support Rating Floor at 'A-' (A minus). In addition, Fitch Ratings Ltd placed Lloyds TSB Group plc's long-term issuer default rating and senior unsecured debt ratings of 'AA+', its individual rating of 'A' and its preference shares and subordinated debt ratings of 'AA' on Rating Watch Negative and affirmed Lloyds TSB Group plc's short-term issuer default rating at 'F1+', its Support Rating at '5' and its Support Rating Floor at 'No Floor'.
- On 8 October 2008, HM Treasury issued a press release entitled "*Financial support to the banking industry*" (the **Government's Announcement**) announcing proposals by the UK Government to ensure stability of the financial system and to protect ordinary savers, depositors, businesses and borrowers.

- On 8 October 2008, Lloyds TSB Group plc issued an announcement via the London Stock Exchange plc's Regulatory News Service confirming that it welcomed the Government's Announcement, and stating that Lloyds TSB Group plc would make a further announcement in due course once it had fully assessed the implications of the Government's Announcement.
- On 13 October 2008, Lloyds TSB Group plc published the Acquisition and Capital Announcement. A copy of the Acquisition and Capital Announcement has been filed with the Financial Services Authority and certain parts of the Acquisition and Capital Announcement are incorporated by reference in, and form part of, this Prospectus.
- On 3 November 2008, Lloyds TSB Group plc:
  - published the Management Statement; and
  - posted the Circular.

Copies of the Management Statement and the Circular have been filed with the Financial Services Authority and the Management Statement and certain parts of the Circular are incorporated by reference in, and form part of, this Prospectus.

- (i) On 18 November 2008, Lloyds TSB Group plc published the Lloyds TSB Placing and Open Offer Prospectus and (ii) on 19 November 2008, Lloyds TSB Group plc published an announcement regarding the publication of the Lloyds TSB Placing and Open Offer Prospectus, an update on the timetable and details of the excess application facility for Lloyds TSB Group plc's shareholders in the context of the placing and open offer. A copy of the Lloyds TSB Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 18 November 2008, HBOS plc published the HBOS Placing and Open Offer Prospectus. A copy of the HBOS Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the HBOS Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.
- On 20 November 2008, Lloyds TSB Group plc published a prospectus relating to certain classes of preference share proposed to be issued by Lloyds TSB Group plc in connection with the Preference Share Scheme.
- On 17 December 2008, Lloyds TSB Group plc published the Lloyds TSB Supplementary Placing and Open Offer Prospectus. A copy of the Lloyds TSB Supplementary Placing and Open Offer Prospectus has been filed with the Financial Services Authority and certain parts of the Lloyds TSB Supplementary Placing and Open Offer Prospectus are deemed to be incorporated by reference in, and form part of, this Prospectus.

## **Directors**

The directors of Lloyds TSB Group plc and of the Issuer, the business address of each of whom is 25 Gresham Street, London EC2V 7HN, England, and their respective principal outside activities, where significant to the Issuer, are as follows:

### **Name**

**Sir Victor Blank**  
Chairman

### **Principal outside activities**

A member of the Financial Reporting Council from 2002 to 2007 and a member of the Council of Oxford University from 2000 to 2007. A senior adviser to the Texas Pacific Group and appointed by the Prime Minister as a Business Ambassador. Chairs two charities, Wellbeing of Women and UJS Hillel, as well as the Council of University College School.

### **Executive directors**

<b>J. Eric Daniels</b> Group Chief Executive	A non-executive director of BT Group.
<b>Archie G. Kane</b> Group Executive Director, Insurance and Investments	Chairman of the Association of British Insurers and a member of the Chancellor's Financial Services Global Competitiveness Group, The Takeover Panel and the Chancellor's Insurance Industry Working Group.
<b>G. Truett Tate</b> Group Executive Director, Wholesale & International Banking	A non-executive director of BritishAmerican Business Inc. A member of the fund-raising board of the National Society for the Prevention of Cruelty to Children.
<b>Tim J.W. Tooke</b> Group Finance Director	None.
<b>Helen A. Weir CBE</b> Group Executive Director, UK Retail Banking	A non-executive director of Royal Mail Holdings. A member of the Said Business School Advisory Board.
<b>Non-executive directors</b>	
<b>Wolfgang C.G. Berndt</b>	A non-executive director of Cadbury, GfK AG and MIBA AG.
<b>Ewan Brown CBE FRSE</b>	A non-executive director of Noble Grossart and Stagecoach Group, senior governor of the Court of the University of St Andrews and vice chairman of the Edinburgh International Festival.
<b>Jan P. du Plessis</b>	Chairman of British American Tobacco and a non-executive director of Rio Tinto and Marks and Spencer Group.
<b>Philip N. Green</b>	Chief Executive of United Utilities. A director of Business in the Community, a member of the government's UK Commission for Employment and Skills and a trustee of the Philharmonia Orchestra.
<b>Sir Julian Horn-Smith</b>	A non-executive director of Digicel Group, a member of the Altimo International advisory board and a senior adviser to UBS in relation to the global telecommunications sector.
<b>Lord Leitch</b>	Appointed chairman of Scottish Widows in 2007. Chairman of the government's Review of Skills and deputy chairman of the Commonwealth Education Fund. Chairman of BUPA and Intrinsic Financial Services and a non-executive director of Paternoster.
<b>Carolyn J. McCall OBE</b>	Group Chief Executive of Guardian Media Group. Chair of Opportunity Now and a board member of Business in the Community.
<b>Sir David Manning GCMG CVO</b>	A non-executive director of BG Group and Lockheed Martin UK Holdings.
<b>Martin A. Scicluna</b>	A non-executive director of Great Portland Estates.

None of the directors of Lloyds TSB Group plc and of the Issuer have any actual or potential conflict between their duties to Lloyds TSB Group plc or the Issuer and their private interests or other duties as listed above.

## THE LLP

Lloyds TSB Secured Finance LLP (the **LLP**) was incorporated on 27 November 2008 in England and Wales as a limited liability partnership (with registered number OC341740) under the LLPA by Lloyds TSB Bank plc and the Liquidation Member as its Members.

The LLP's registered office is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of the LLP's registered office is 0207 398 6300.

The LLP forms a group with its Members and has no subsidiaries. The LLP is dependent on (i) Lloyds TSB Bank plc and C&G to provide certain services to it on the terms of the Transaction Documents and (ii) on the Corporate Services Provider to provide certain corporate administration services.

The principal activities of the LLP are set out in the LLP Deed and include, *inter alia*, the ability to carry on the business of acquiring the Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement with a view to profit, to borrow money and to do all such things as are incidental or conducive to the carrying on of that business.

The LLP has not engaged since incorporation, and will not engage whilst the Covered Bonds or any Term Advance remains outstanding, in any material activities other than activities incidental to its incorporation under the LLPA, activities contemplated under the Transaction Documents to which it is or will be a party, applying for a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to the foregoing.

### Members

The Members of the LLP as at the date of this Prospectus and their registered offices are:

<b>Name</b>	<b>Registered Office</b>
Lloyds TSB Bank plc	25 Gresham Street, London EC2V 7HN
Lloyds TSB Secured Finance (LM) Limited	35 Great St. Helen's, London EC3A 6AP

### Directors of the Members

The following table sets out the directors of the Liquidation Member and their respective businesses addresses and occupations at the date of this Prospectus.

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	35 Great St. Helen's, London, EC3A 6AP	Acting as corporate company director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Acting as corporate company director of special purpose companies
Gary Staines	10 Gresham Street, London EC2V 7AE	Director, Securitisation, Lloyds TSB Bank plc

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

<b>Name</b>	<b>Business address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's, London EC3A 6AP	Managing Director, Structured Finance Management Limited
James Macdonald	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Robert Berry	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Paivi Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
John Paul Nowacki	35 Great St. Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Annika Aman-Goodwille (alternate director)	35 Great St. Helen's, London EC3A 6AP	Chartered Secretary
Cane Pickersgill (alternate director)	35 Great St. Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Management Limited
Debra Parsall (alternate director)	35 Great St. Helen's, London EC3A 6AP	Transaction Manager, Structured Finance Limited

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

Potential conflicts of interest may exist between any duties of the directors of the Members to the LLP (if any) and their private interests or other duties, for example if they are also a member of the LLP Management Board or otherwise assume a personal duty of care to the LLP. As at the date hereof, none of the directors of Lloyds TSB Bank plc, SFM Directors Limited or SFM Directors (No. 2) Limited are members of the LLP Management Board or have otherwise assumed a personal duty of care to the LLP and therefore, as at the date hereof, there are no conflicts of interest.

Gary Staines is a director of the Liquidation Member, an employee of the Issuer and a member of the LLP Management Board. As at the date hereof there are no conflicts of interest between Gary Staines in his capacity as director of the Liquidation Member, employee of the Issuer and/or member of the LLP Management Board.

Potential conflicts of interest may exist between the duties of a member of the LLP Management Board to the LLP and their duties to the Member appointing them, for example if they are also an employee or a director of the Member, although there are no conflicts as at the date hereof. The LLP Deed contains an acknowledgement of such potential conflicts and provides that any member of the LLP Management Board concerned may continue to vote on any matter to be determined by the LLP Management Board notwithstanding any such conflict and without any further or more specific disclosure.

### **Management Board**

At the date of this Prospectus, the following are the members of the LLP Management Board:

<b>Position in the LLP</b>	<b>Name</b>	<b>Principal Activities outside the LLP</b>
Member of the Management Board	Kate Grant	MD and Head of Securitised Products Group, Lloyds TSB Bank plc
Member of the Management Board	Edward Short	Head of Liquidity/Funding Management, Lloyds TSB Bank plc
Member of the Management Board	Gary Staines	Director, Securitisation, Lloyds TSB Bank plc
Member of the Management Board	Susan Harris	Finance Director, UKRB, interim, Lloyds TSB Bank plc

The business address of all the members of the LLP Management Board listed above with the exception of Susan Harris is 10 Gresham Street, London EC2V 7AE. The business address of Susan Harris is 25 Gresham Street, London, EC2V 7HN.

The LLP has no employees.

As at the date of this Prospectus, the LLP is controlled by Lloyds TSB Bank plc. To ensure that such control is not abused, the Members of the LLP and the LLP, *inter alios*, have entered into the LLP Deed which governs the operation of the LLP.

In the event of the appointment of a liquidator or an administrator to Lloyds TSB Bank plc or Lloyds TSB Bank plc disposing of any of the shares of Lloyds TSB Secured Finance (LM) Limited (such that it ceases to hold at least 20 per cent. of Lloyds TSB Secured Finance (LM) Limited without any necessary consents), Lloyds TSB Secured Finance (LM) Limited would take control of the LLP.

The LLP's accounting reference date is 31 December. As at the date of this Prospectus, the LLP has not produced any audited accounts.

## SUMMARY OF THE PRINCIPAL DOCUMENTS

### Trust Deed

The Trust Deed, made between the Issuer, the LLP, the Bond Trustee and the Security Trustee on the Programme Date, is the principal agreement governing the Covered Bonds. The Trust Deed contains provisions relating to, *inter alia*:

- the constitution of the Covered Bonds and the terms and conditions of the Covered Bonds (as more fully set out under *Terms and Conditions of the Covered Bonds* above);
- the covenants of the Issuer and the LLP;
- the terms of the Covered Bond Guarantee (as described below);
- the enforcement procedures relating to the Covered Bonds and the Covered Bond Guarantee; and
- the appointment, powers and responsibilities of the Bond Trustee and the circumstances in which the Bond Trustee may resign, or retire or be removed.

### Covered Bond Guarantee

Under the terms of the Covered Bond Guarantee, if the Issuer defaults in the payment on the due date of any moneys due and payable under or pursuant to the Trust Deed or the Covered Bonds or any Receipts or Coupons, or if any other Issuer Event of Default occurs (other than by reason of non-payment), and, in either case, if the Bond Trustee has served an Issuer Acceleration Notice, the LLP has agreed (subject as described below) to pay or procure to be paid or delivered or procure to be delivered (in the case of Asset Amounts if required in accordance with the Final Terms in respect of Equity Linked Redemption Bonds only) (following service of a Notice to Pay) unconditionally and irrevocably to or to the order of the Bond Trustee (for the benefit of the Covered Bondholders) an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but would otherwise be unpaid, as of any Original Due for Payment Date or, if applicable, the Extended Due for Payment Date, by the Issuer. Payment or delivery as the case may be, by the LLP of the Guaranteed Amounts pursuant to the Covered Bond Guarantee will be made on the later of (a) the day which is two Business Days following service of a Notice to Pay on the LLP and (b) the day on which the Guaranteed Amounts are otherwise Due for Payment (the **Guaranteed Amounts Due Date**). In addition, the LLP shall, to the extent it has funds available to it, make payments or a delivery (in the case of Asset Amounts) in respect of the unpaid portion of the Final Redemption Amount on any Original Due for Payment Date up until the Extended Due for Payment Date (where an Extended Due for Payment Date is provided for in the relevant Final Terms). The Bond Trustee will be required to serve a Notice to Pay on the LLP and the Issuer with a copy to the Principal Paying Agent following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

Under the Covered Bond Guarantee, the Guaranteed Amounts will become due and payable on any earlier date on which, following the occurrence of an LLP Event of Default, an LLP Acceleration Notice is served in accordance with Condition 9.2. Following service of an LLP Acceleration Notice, the Covered Bonds will (if an Issuer Acceleration Notice has not already been served) become immediately due and payable as against the Issuer and the obligations of the LLP under the Covered Bond Guarantee will be accelerated.

All payments or delivery, in the case of Asset Amounts, of Guaranteed Amounts by or on behalf of the LLP shall be made without withholding or deduction for, or on account of, any present or future taxes, duties or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction of such taxes, duties or other charges is required by law. In that event the LLP will pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The LLP will not be obliged to pay or delivery, in the case of Asset Amounts, any amount to the Bond Trustee or any holder of Covered Bonds in respect of the amount of such withholding or deduction.

Under the terms of the Covered Bond Guarantee, the LLP agrees that its obligations under the Covered Bond Guarantee shall be as principal debtor and not merely as surety and shall be absolute and unconditional (subject to a Notice to Pay or LLP Acceleration Notice having been served), irrespective of, and unaffected by, any invalidity, irregularity or unenforceability of, or defect in, any provisions of the Trust Deed or the Covered Bonds or Receipts or Coupons or the absence of any action to enforce the same or the waiver, modification or

consent by the Bond Trustee or any of the Covered Bondholders, Receiptholders or Couponholders in respect of any provisions of the same or the obtaining of any judgment or decree against the Issuer or any action to enforce the same or any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

Subject to the grace period specified in Condition 9.2(a) of the Terms and Conditions, failure by the LLP to pay the Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date will result in an LLP Event of Default.

The Trust Deed provides that any Excess Proceeds shall be paid by the Bond Trustee on behalf of the Covered Bondholders of the relevant Series to the LLP for its own account, as soon as practicable, and shall be held by the LLP in the GIC Account and the Excess Proceeds shall thereafter form part of the Security and shall be used by the LLP in the same manner as all other moneys from time to time standing to the credit of the LLP Accounts and shall be applied as Available Principal Receipts. Any Excess Proceeds received by the Bond Trustee shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons. However, the obligations of the LLP under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Bond Trustee of any Excess Proceeds shall not reduce or discharge any of such obligations.

By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Bond Trustee to pay the Excess Proceeds to the LLP in the manner as described above.

The Trust Deed is governed by English law.

### **Intercompany Loan Agreement**

On each Issue Date, the Issuer will use the proceeds of the Covered Bonds issued under the Programme to lend on that date an amount equal to the nominal value of the issue of the related Covered Bonds (or the Sterling Equivalent thereof) to the LLP by way of a Term Advance pursuant to the Intercompany Loan Agreement. Each Term Advance will be made in either Sterling or in the Specified Currency of the relevant Series or Tranche, as applicable, of the Covered Bonds, as set out in the applicable Final Terms. For the avoidance of doubt, if the Covered Bond Swap in relation to the relevant Series or Tranche is a Forward Starting Covered Bond Swap, the Term Advance will be made in Sterling. Each Term Advance which is made in a currency other than Sterling will be exchanged by the LLP into Sterling pursuant to the relevant Non-Forward Starting Covered Bond Swap Agreement. The Sterling Equivalent of each Term Advance will be used by the LLP:

- (a) as consideration (in whole or in part) for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement, as described under – *Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*; and/or
- (b) to invest in Substitution Assets in an amount not exceeding the prescribed limit,

to the extent required to meet the Asset Coverage Test and to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, to meet the requirement of Regulation 17(2)(b) and 24(1)(a)(ii) of the RCB Regulation and thereafter may be applied by the LLP:

- (i) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; and/or
- (ii) to invest in Substitution Assets in an amount not exceeding the prescribed limit; and/or
- (iii) (subject to satisfying the Asset Coverage Test), to make a Capital Distribution to a Member; and/or
- (iv) if an existing Series, or part of an existing Series, of Covered Bonds is being refinanced by such issue of Covered Bonds, to repay the Term Advances corresponding to the Covered Bonds being so refinanced; and/or
- (v) to make a deposit in the GIC Account (including, without limitation, to fund the Reserve Fund to an amount not exceeding the prescribed limit).

Each Term Advance which is made in the Specified Currency of the relevant Series or Tranche of Covered Bonds will bear interest at a rate of interest equal to the rate of interest payable on the corresponding Series or Tranche, as applicable, of Covered Bonds. Each Term Advance which is made in Sterling will bear interest at a rate of interest equal to LIBOR for one month Sterling deposits plus a margin or such other rate or for such other interest period as may be agreed by the parties to the Intercompany Loan Agreement.

The Issuer will not be relying on repayment of any Term Advance in order to meet its repayment obligations under the Covered Bonds. The LLP will pay amounts due in respect of Term Advances(s) in accordance with the relevant Priorities of Payments. Provided no Asset Coverage Test Breach Notice is outstanding, prior to service of a Notice to Pay on the LLP, amounts due in respect of each Term Advance will be paid by the LLP to, or as directed by, the Issuer on each Interest Payment Date, subject to paying all higher ranking amounts in the Pre-Acceleration Revenue Priority of Payments or, as applicable, the Pre-Acceleration Principal Priority of Payments. The Issuer may (but is not required to) use the proceeds of the Term Advances to pay amounts due on the Covered Bonds; any failure by the LLP to pay any amounts due on the Term Advances, however, will not affect the liability of the Issuer to pay the relevant amount due on the Covered Bonds. For so long as an Asset Coverage Test Breach Notice is outstanding, the LLP may not borrow any new Term Advances from the Issuer under the Intercompany Loan Agreement.

The amounts owed by the LLP to the Issuer under the Term Advances will be reduced by (i) any amounts paid by the LLP under the terms of the Covered Bond Guarantee and (ii) the Principal Amount Outstanding of any Covered Bonds (the proceeds of which were originally applied to make such Term Advances) purchased by the Issuer or the LLP and cancelled in accordance with Condition 6.9. If a Term Advance is denominated in Sterling but the related Covered Bonds are denominated in another currency, the amount of the reduction shall be the Sterling Equivalent of the amount paid by the LLP under the Covered Bond Guarantee or the Sterling Equivalent of the Principal Amount Outstanding of Covered Bonds so purchased and cancelled.

The Intercompany Loan Agreement is governed by English law.

### **Mortgage Sale Agreement**

#### *The Seller*

Loans and their Related Security will be sold to the LLP from time to time pursuant to the terms of the Mortgage Sale Agreement entered into on the Programme Date between Lloyds TSB Bank plc (in its capacity as Seller), the LLP and the Security Trustee (or, until such time as the LLP obtains the requisite licence under the CCA, the English Loans will be held on trust by the Seller for the benefit of the LLP under a bare trust constituted under English law (the **CCA Trust**)). References in this Prospectus, the Mortgage Sale Agreement and the Transaction Documents to the "sale" or "repurchase" of English Loans are deemed, until such time as the LLP obtains the requisite licence under the CCA, to be references to the beneficial interest in the English Loans being held on trust for the LLP under the CCA Trust.

#### *Sale by the Seller of the Loans and Related Security*

The Portfolio will consist of the Loans and their Related Security sold from time to time by the Seller to the LLP in accordance with the terms of the Mortgage Sale Agreement. The types of Loans forming the Portfolio will vary over time provided that the Eligibility Criteria (as described below) in respect of such Loans are met on the relevant Sale Date. Accordingly, the Portfolio may, at any time, include Loans with different characteristics from Loans that were included in the Portfolio or being offered to Borrowers on previous Sale Dates.

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the LLP will acquire the Loans and their Related Security from the Seller in certain circumstances, including the three circumstances described below.

- (a) *First*, in relation to the issue of Covered Bonds from time to time in accordance with the Programme, the Issuer will make Term Advances to the LLP, the proceeds of which may be applied in whole or in part by the LLP to acquire Loans and their Related Security from the Seller.
- (b) *Second*, the LLP will, in certain circumstances, use the Available Principal Receipts to acquire Loans and their Related Security from the Seller and/or Substitution Assets (in the case of any Substitution Assets, up to the prescribed limit) on each LLP Payment Date.
- (c) *Third*, the LLP and the Seller are required to ensure that the Portfolio is maintained at all times in compliance with the Asset Coverage Test (as determined by the Cash Manager on each Calculation Date). If on any Calculation Date there is a breach of the Asset Coverage Test, the Seller will use all reasonable endeavours to offer to sell to the LLP sufficient New Loans and their Related Security on or before the next Calculation Date to ensure compliance with the Asset Coverage Test as at the next Calculation Date.

If an Issuer Event of Default has occurred but no liquidator or administrator has been appointed to the Seller, Loans and their Related Security may only be acquired from the Seller if the Seller has provided a solvency certificate to the LLP and the Security Trustee.

In exchange for the sale of the Loans and their Related Security to the LLP, the Seller will receive an amount equal to the Current Balance of those Loans sold by it as at the Sale Date, which will be satisfied by one or a combination of:

- (i) a cash payment to be made by the LLP from the Sterling Equivalent of the proceeds of the relevant Term Advance and/or from Available Principal Receipts;
- (ii) the Seller being treated as having made a Capital Contribution in Kind in an amount equal to the difference between the Current Balance of the New Loans sold by the Seller as at the relevant Sale Date and the cash payment (if any) made by the LLP in accordance with (i) above; and/or
- (iii) Deferred Consideration (including any Postponed Deferred Consideration) which shall be paid by the LLP on each LLP Payment Date (provided there are available funds) in accordance with the relevant Priorities of Payments.

If Selected Loans and their Related Security are sold by or on behalf of the LLP as described below under *LLP Deed – Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice* and *Sale of Selected Loans and their Related Security following service of a Notice to Pay*, the obligations of the Seller insofar as they relate to those Selected Loans and their Related Security will cease to apply.

The Seller will also be required to repurchase Loans and their Related Security sold to the LLP in the circumstances described below under – *Repurchase of Loans*.

#### *Eligibility Criteria*

The sale of Loans and their Related Security to the LLP will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the relevant Sale Date. These are as follows:

- (a) there shall have been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor an LLP Event of Default and service of an LLP Acceleration Notice as at the relevant Sale Date;
- (b) the LLP, acting on the advice of the Cash Manager, is not aware, and could not reasonably be expected to be aware, that the proposed purchase by the LLP of the relevant Loans and their Related Security on the relevant Sale Date would adversely affect the then current rating by Moody's or S&P of the Covered Bonds;
- (c) the yield on the Loans in the Portfolio together with the yield of the New Loans to be sold to the LLP on the relevant Sale Date is at least 0.15 per cent. greater than LIBOR for one-month sterling deposits as at the relevant Sale Date, after taking into account the weighted average yield on the Relevant Loans and the margins on the Swaps, in each case as at the relevant Sale Date;
- (d) no Loan that is proposed to be sold to the LLP on the relevant Sale Date has a Current Balance of more than £1,000,000;
- (e) if the Loans that are proposed to be sold to the LLP on the relevant Sale Date include New Loan Types or Loans in relation to which the relevant Borrower grants a mortgage or standard security over a property which is subject to a shared ownership lease, the LLP has obtained written confirmation from each of the Rating Agencies that if such New Loan Types were to be sold to the LLP, such sale of the New Loan Types to the LLP would not have an adverse effect on the then current ratings by the Rating Agencies of the Covered Bonds; and
- (f) no Loan that is proposed to be sold to the LLP on the relevant Sale Date relates to a Property which is not a residential property.

On the relevant Sale Date, the Representations and Warranties (described below in – *Representations and Warranties*) will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the LLP.

If the Seller accepts an application from, or makes an offer (which is accepted) to, a Borrower for a Product Switch or Further Advance which constitutes an unconditional obligation on the part of the Seller to make such Product Switch or a Further Advance, then the Seller may offer to repurchase the relevant Loan and the Related Security to which the Product Switch or Further Advance relates, subject to certain criteria being satisfied. As

set out in the Servicing Agreement, C&G (in its capacity as Servicer) may not agree to a Product Switch or to make a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA, although the Seller may agree to such Product Switch or Further Advance if it repurchases the Loan that is subject to such Product Switch or Further Advance and if by so doing the LLP would not thereby be in contravention of the FSMA.

#### *Transfer of Title to the Loans to the LLP*

English Loans will be sold by the Seller to the LLP by way of equitable assignment. Scottish Loans will be sold by the Seller on the First Sale Date by way of a Scottish Declaration of Trust and, in relation to Scottish Loans sold by the Seller to the LLP after the First Sale Date, by further Scottish Declarations of Trust under which the beneficial interest in such Scottish Loans will be transferred to the LLP. Until the LLP has given notice to the Seller and the Security Trustee that it has obtained the requisite licence under the CCA, the Seller will hold the English Loans on trust for the LLP under the CCA Trust. Following receipt of notice from the LLP that it has obtained such licence the Seller will assign such English Loans and their Related Security to the LLP. In relation to Scottish Loans, references in this document to a sale or equitable assignment of Loans or to Loans having been sold or equitably assigned are to be read as references to the making of such Scottish Declarations of Trust in respect of Scottish Loans. For the avoidance of doubt, in relation to Scottish Loans, references in this document to a legal assignment of Loans or to Loans having been legally assigned are to be read as references to the granting of assignments of such Scottish Loans pursuant to the Mortgage Sale Agreement. Such beneficial interest (as opposed to the legal title) cannot be registered or recorded in the Registers of Scotland. As a result, legal title to all of the Loans and their Related Security will remain with the Seller until legal assignments or assignments (as appropriate) are effected by the Seller to the LLP and notice of the sale is given by the Seller to the Borrowers. If the requisite licence under the CCA has not been obtained upon the occurrence of any of the events described in paragraph (a) to (h) below, notice of the LLP's beneficial interest in the CCA Trust or under the Scottish Declaration of Trust (as applicable) will be given by or on behalf of the LLP to the Borrowers, and legal assignment of the Loans and notice of the sale will only be given to the Borrowers upon such licence being obtained. Legal assignment or assignment (as appropriate) of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the LLP will be deferred and will only take place in the limited circumstances described in the paragraph below.

The assignments, assignments, transfers or conveyances (as appropriate) of the Loans and their Related Security (or, where specified, the Selected Loans and their Related Security) to the LLP shall be perfected by the Seller (or, as the case may be, the LLP or the Security Trustee pursuant to powers granted under the Seller Power of Attorney) on or before the 20th London Business Day after the later of the date on which the LLP gives notice to the Seller and the Security Trustee that it has obtained the requisite licence under the CCA and the earliest to occur of:

- (a) service of a Notice to Pay (unless the Seller has notified the LLP that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time) or an LLP Acceleration Notice;
- (b) in respect of Selected Loans only, at the request of the LLP following the acceptance of any offer to sell the Selected Loans and their Related Security to any person who is not the Seller;
- (c) the Seller and/or the LLP being required to perfect legal title to the Loans and their Related Security, or procure any or all of the acts referred to in Clause 6 of the Mortgage Sale Agreement, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans and their Related Security;
- (d) it becoming necessary by law to take such actions;
- (e) the Security Trustee giving notice that, in its opinion, the property, assets and rights of the LLP comprised in the Security constituted by the Deed of Charge or any material part thereof are in jeopardy and that the doing of any or all of the acts referred to herein is necessary in order to materially reduce such jeopardy;
- (f) the Seller calling for perfection by serving notice in writing to the LLP and the Security Trustee;
- (g) the date on which the Seller ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from Moody's of at least Baa3 or a long term, unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-; or

(h) the occurrence of an Insolvency Event in relation to the Seller.

Pending completion of the transfer, the right of the LLP to exercise the powers of the legal owner of, or (in Scotland) the heritable creditor under, the Mortgages will be secured by, or (in Scotland) supported by, an irrevocable power of attorney granted by the Seller in favour of the LLP and the Security Trustee.

The Title Deeds (if any) and Customer Files relating to the Loans in the Portfolio will be held by or to the order of the Seller or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security, save for Title Deeds (if any) held at the Land Registry or the Registers of Scotland or the Registry of Deeds. The Seller will undertake that all the Customer Files and Title Deeds relating to the Loans in the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Security Trustee or as the Security Trustee may direct.

#### *Representations and Warranties*

None of the LLP, the Security Trustee or the Bond Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security to be sold to the LLP. Instead, each is relying entirely on the Representations and Warranties by the Seller contained in the Mortgage Sale Agreement. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which consent will only be given if the Security Trustee is satisfied, acting reasonably, that there will be no adverse effect on the then current ratings of the Covered Bonds as a result thereof), amend or waive the Representations and Warranties in the Mortgage Sale Agreement. The material Representations and Warranties are as follows and are given on the relevant Sale Date in respect of the Loans and Related Security to be sold to the LLP only on that date:

- each Loan was originated by the Seller, C&G or another member of the Lloyds TSB Group, that has previously sold such loans to the Seller in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in Euro if the Euro has been adopted as the lawful currency for the time being of the United Kingdom);
- no Loan has a Current Balance of more than £1,000,000;
- prior to the making of each advance under a Loan, the Lending Criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- so far as the Seller is aware, other than with respect to Monthly Payments, no Borrower is or has, since the date of the execution of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Loan or its Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- the total amount of interest or principal in arrears, including any fees and premiums payable at the same time as that interest payment or principal repayment, on any Loan is not, on the relevant Sale Date in respect of any Loan, more than the amount of the Monthly Payment then due;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date of execution of the Mortgage;
- at least one Monthly Payment has been made in respect of each Loan or, for the avoidance of doubt, in case of a Product Switch, Flexible Loan or Further Advance, the original advance;
- the whole of the Current Balance on each Loan is secured by a Mortgage;
- no loan was originated under a dedicated staff scheme;
- save in relation to any Right to Buy Loan secured over a Property situated in England or Wales where (if there is one year or less to run of the statutory repayment period) that statutory charge may take priority, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage (or in Scotland) first ranking standard security over the relevant Property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland which, where required, have been made and are pending and in relation to such cases the Seller is not aware of any notice or any other matter that would prevent such registration or recording;

- each Loan and its Related Security is, save in relation to any Loan and Related Security which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999, valid and binding and enforceable in accordance with its terms and is non-cancellable. To the best of the Seller's knowledge, none of the terms in any Loan or their Related Security, save for any term which relates to Early Repayment Charges, the power to vary closing administration charges and the power to recover indemnity costs is unfair within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;
- all of the Properties are located in England, Wales or Scotland;
- in respect of Loans originated from applications received on or after 6 February 2006 for purchases not more than twelve months prior to the execution of such Mortgage (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) the Seller, C&G or another member of the Lloyds TSB Group has received a Valuation Report from a valuer on the relevant Property. In respect of Loans originated from applications received before 6 February 2006 and in respect of remortgages and further advances the Seller will either have obtained a valuation report or other evidence of value, the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender or, in appropriate cases (as would be acceptable to a Reasonable, Prudent Mortgage Lender), relied on the relevant Borrower's estimate of value;
- the benefit of all Valuation Reports and Certificates of Title which were provided to the Seller or C&G or another member of the Lloyds TSB Group not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the LLP without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- prior to the taking of each Mortgage (other than a remortgage), the Seller, C&G or another member of the Lloyds TSB Group instructed its solicitor or licensed or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake such other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller or C&G or another member of the Lloyds TSB Group issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the case of English Loans in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, Cheltenham & Gloucester plc's Mortgage Practice Notes) and, in the case of Scottish Loans, the CML's Lenders Handbook for Scotland (or, for Scottish Mortgages taken before the CML's Lender's Handbook for Scotland was adopted in 2000, Cheltenham & Gloucester plc's Mortgage Practice Notes) or such other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations made on a case by case basis as would have been acceptable to a Reasonable, Prudent Mortgage Lender at the relevant time;
- so far as the Seller is aware buildings insurance cover for such Property is available under a policy arranged by the Borrower or by or on behalf of the Seller or a buildings insurance policy arranged by the relevant landlord or the Properties in Possession Cover;
- any tenancy agreement to which a Property is subject and which is binding on the Seller is in a form which would be acceptable to a Reasonable, Prudent Mortgage Lender and is not for a term of more than 12 months;
- the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by it to the LLP pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3 respectively of the Land Registration Act 2002) in the case of any property, interests or rights governed by English law) and the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee or with absolute warrandice or as beneficial owner, as the case may be;
- either the Seller, C&G or any other member of the Lloyds TSB Group has, since the making of or acquisition of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such Loan; and

- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence.

In the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations as amended, each Loan and its Related Security will be **eligible property** for the purposes of Regulation 2 of the RCB Regulations.

The Seller will make Representations and Warranties (subject to appropriate adjustments) in relation to each Loan which is subject to a Product Switch or Further Advance that remains in the Portfolio on the date on which the relevant Product Switch or Further Advance (as the case may be) is made.

If New Loan Types are proposed to be sold to the LLP, then the Representations and Warranties in the Mortgage Sale Agreement may be modified as required, with the prior consent of the Security Trustee, to accommodate these New Loan Types. The prior consent of the Covered Bondholders to the requisite amendments will not be required to be obtained.

#### *Repurchase of Loans*

If the Seller receives a Loan Repurchase Notice from the LLP identifying a Loan or its Related Security in the Portfolio which did not, as at the relevant Sale Date, materially comply with the Representations and Warranties set out in the Mortgage Sale Agreement, then the Seller will be required to repurchase (a) any such Loan and its Related Security and (b) any other Loan secured or intended to be secured by that Related Security or any part of it. The repurchase price payable upon the repurchase of any such Loan is an amount (not less than zero) equal to the Current Balance of such Loan(s). The repurchase proceeds received by the LLP will be applied in accordance with the Pre-Acceleration Principal Priority of Payments (see *Cashflows* below).

#### *General ability to repurchase*

Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may from time to time offer to repurchase a Loan and its Related Security from the LLP for a purchase price (not less than zero) equal to the Current Balance of such Loan(s) as at the date of repurchase. The LLP may accept such offer at its discretion. If an Issuer Event of Default has occurred, the Seller's right to repurchase Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee.

#### *Defaulted Loans*

Defaulted Loans will be attributed a reduced weighting in the calculation of the Asset Coverage Test and the Amortisation Test as at the relevant Calculation Date. Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or an LLP Event of Default and service of an LLP Acceleration Notice, the Seller may, at its option, offer to repurchase a Defaulted Loan and its Related Security from the LLP for an amount equal to its aggregate Current Balance of such Loans as at the date of repurchase. The LLP may accept such offer at its discretion. If an Issuer Event of Default has occurred, the Seller's right to repurchase Defaulted Loans and their Related Security will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee.

#### *Right of Pre-emption*

Under the terms of the Mortgage Sale Agreement, the Seller has a right of pre-emption in respect of any sale, in whole or in part, of Selected Loans and their Related Security.

The LLP will serve on the Seller a Selected Loan Offer Notice offering to sell those Selected Loans and their Related Security for an offer price in aggregate equal to (a) where the Selected Loans are offered for sale whilst an Asset Coverage Test Breach Notice is outstanding but prior to service of a Notice to Pay, the then Current Balance of the Selected Loans and (b) where the Selected Loans are offered for sale following service of a Notice to Pay, the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount, in each case subject to the offer being accepted by the Seller within 10 London Business Days from and including the date of the Selected Loan Offer Notice. If an Issuer Event of Default has occurred, the Seller's right to accept the offer (and therefore its right of pre-emption) will be conditional upon the delivery by the Seller of a solvency certificate to the LLP and the Security Trustee. If the Seller rejects the LLP's offer or fails to accept it in accordance with the foregoing, the LLP will offer to sell the Selected Loans and their Related

Security to other Purchasers (as described under – *LLP Deed – Sale of Selected Loans and their Related Security following service of a Notice to Pay* below).

If the Seller validly accepts the LLP's offer to sell the Selected Loans and their Related Security, the LLP will, within three London Business Days of such acceptance, serve a Selected Loan Repurchase Notice on the Seller. The Seller will sign and return a duplicate copy of the Selected Loan Repurchase Notice and will repurchase from the LLP free from the Security created by and pursuant to the Deed of Charge the relevant Selected Loans and their Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of such repurchase shall take place on the LLP Payment Date next occurring after receipt by the Seller of such Selected Loan Repurchase Notice or such other date as the LLP may direct in the Selected Loan Repurchase Notice (provided that such date, where a Notice to Pay has been served, shall not be later than the earlier to occur of the date which is (a) 10 London Business Days after receipt by the LLP of the returned Selected Loan Repurchase Notice or (b) the Final Maturity Date of, as applicable, the Hard Bullet Covered Bonds or the Earliest Maturing Covered Bonds).

#### *Product Switches, Further Advances and Flexible Loan Drawings*

The Seller is solely responsible for funding all Further Advances and Flexible Loan Drawings in respect of Loans sold by the Seller to the LLP, if any. The Seller will be treated as having made a Capital Contribution in Kind (or in the case of a Payment Holiday funded by the Seller, a Cash Capital Contribution) in an amount equal to the relevant increase of the Current Balance of the Loan, as set out in the LLP Deed.

The LLP may require the Seller to repurchase any Loan and its Related Security in the event of a material breach of any of the Representations or Warranties or if any of those Representations or Warranties proves to be materially untrue in relation to that Loan. If a Loan is subject to a Product Switch or an offer of a Further Advance, then the Seller may offer to repurchase the Loan or Loans under the relevant Mortgage Account and the Related Security from the LLP and the LLP may at its absolute discretion accept such offer. In either case, the sale price will be equal to the aggregate Current Balance of such Loans as at the date of repurchase.

A Loan will be subject to a **Product Switch** if there is a variation in the financial terms and conditions applicable to the relevant Borrower's Loan other than:

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation in the term of the Loan;
- any variation imposed by statute;
- any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or
- any variation in the frequency with which the interest payable in respect of the Loan is charged and/or calculated.

#### *New Sellers*

In the future, New Sellers may accede to the Programme and sell loans and their related security to the LLP. Any such New Seller will be required to enter into a New Mortgage Sale Agreement, which will be in substantially the same form and contain substantially the same provisions as the Mortgage Sale Agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee. The sale of New Seller Loans and their Related Security by New Sellers to the LLP will be subject to certain conditions, including the following:

- each New Seller accedes to the terms of the LLP Deed as Member (with such subsequent amendments as may be agreed by the parties thereto) so that it has, in relation to those New Seller Loans and their Related Security to be sold by the relevant New Seller, substantially the same rights and obligations as the Seller had in relation to those Loans and their Related Security comprised in the Initial Portfolio under the LLP Deed;
- each New Seller enters into a New Mortgage Sale Agreement with the LLP and the Security Trustee, in each case so that it has, in relation to those New Seller Loans and their Related Security to be sold by such New Seller, substantially the same rights and obligations as the Seller had in relation to those

Loans and their Related Security comprised in the Initial Portfolio under the Mortgage Sale Agreement;

- each New Seller accedes to such Transaction Documents and enters into such other documents as may be required by the Security Trustee, the Bond Trustee, the Cash Manager and/or the LLP (in each case acting reasonably) to give effect to the addition of such New Member to the transactions contemplated under the Programme;
- any New Seller Loans and their Related Security sold by a New Seller to the LLP comply with the Eligibility Criteria set out in the New Mortgage Sale Agreement;
- either the Servicer services the New Seller Loans and their Related Security sold by the New Member on the terms set out in the Servicing Agreement (with such subsequent amendments as may be agreed by the parties thereto) or the New Member (or its nominee) enters into a servicing agreement with the LLP and the Security Trustee which sets out the servicing obligations of the New Member (or its nominee) in relation to the New Seller Loans and their Related Security and which is on terms substantially similar to the terms set out in the Servicing Agreement (such that any fees payable to the Servicer or the New Member (or its nominee) acting as servicer of such New Seller Loans and their Related Security would be determined on the date of the accession of such New Member to the Programme); and
- the Security Trustee is satisfied that any modification of the Transaction Documents in order to accommodate the accession of the New Seller to the Programme will not be materially prejudicial to the interests of the relevant Secured Creditors and has obtained a Rating Agency Confirmation in relation thereto.

If the above conditions are met, the consent of Covered Bondholders will not be required in relation to the accession of a New Seller to the Programme.

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security, which shall be governed by Scots law).

### **Servicing Agreement**

Pursuant to the terms of the Servicing Agreement entered into on the Programme Date between the Seller, the LLP, the Servicer and the Security Trustee, the Servicer has agreed to service, on behalf of the LLP (and, in the case of the English Loans for so long as they are subject to the CCA Trust, on behalf of the Seller in its capacity as trustee of the CCA Trust), the Loans and their Related Security comprised in the Portfolio.

The Servicer will be required to manage the Loans and their Related Security in accordance with the Servicing Agreement:

- (a) as if the Loans and their Related Security sold by the Seller to the LLP had not been sold to the LLP but remained with the Seller; and
- (b) in accordance with the Seller's servicing, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans.

The Servicer's actions in servicing the Loans in accordance with its procedures will be binding on the LLP, the Seller and the other Secured Creditors.

The Servicer will have the power to exercise the rights, powers and discretions and to perform the duties of the LLP and the Seller (according to their respective estates and interests) in relation to the Loans and their Related Security that it is servicing pursuant to the terms of the Servicing Agreement, and to do anything which it reasonably considers necessary, convenient or incidental to the management of the Loans and their Related Security.

### *Right of delegation by the Servicer*

The Servicer may from time to time sub-contract or delegate the performance of its duties under the Servicing Agreement, provided that it will nevertheless remain responsible for the performance of those duties to the LLP and the Security Trustee and, in particular, will remain liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor. Any such sub-contracting or delegation may be varied or terminated at any time by the Servicer.

### *Undertakings of the Servicer*

Pursuant to the terms of the Servicing Agreement (and as noted below in item 8, the Cash Management Agreement), the Servicer will undertake in relation to those Loans and their Related Security that it is servicing, *inter alia*, to:

- keep records and books of account on behalf of the LLP in relation to the Loans and their Related Security;
- keep any records necessary for the purposes of all Taxation, including, without limitation, VAT;
- to maintain approvals, authorisations, permissions, consents and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the Data Protection Act 1998, permissions under the FSMA and licences under the CCA;
- to the extent so required by the relevant Mortgage Conditions and applicable law, notify Borrowers of any change in interest rates, whether due to a change in the LLP Standard Variable Rate or any other discretionary rate or margin in relation to any Loan sold by the Seller to the LLP and in the Portfolio or as a consequence of any provisions of the Mortgage Conditions. Any change in the LLP Standard Variable Rate or any other discretionary rate or margin in relation to any Loan shall be notified in writing to each of the LLP, the Seller and the Security Trustee as soon as reasonably practicable and the Servicer shall, upon receipt of a request from any of such parties, notify such requesting party of any changes in the Monthly Payments in relation to the Loans sold by the Seller to the LLP;
- act as collection agent for the LLP for the purpose of collecting amounts due from Borrowers under the Loans and their Related Security sold by the Seller to the LLP and comprised in the Portfolio. It will deliver to the bankers automated clearing system or to the Account Bank such instructions as may be necessary for the debit of the account of each Borrower in respect of which there is a direct debit mandate with the Monthly Payment due from such Borrower and for the amount of such monthly payment to be credited to the GIC Account. Under certain circumstances, the alternative payment arrangements that ensure timely payment of monthly payments due from the Borrower may be agreed between the Servicer and the Borrower;
- keep the Customer Files and Title Deeds in its possession in safe custody and maintain records necessary to enforce each Mortgage and to provide the LLP and the Security Trustee with access to the Title Deeds (if any), the Customer Files and other records relating to the management of the Loans and their Related Security in its possession;
- keep and maintain records in respect of the Portfolio for the purposes of identifying amounts paid by each Borrower, any amount due from a Borrower and the Current Balance of each Loan and such other records as would be kept by a Reasonable, Prudent Mortgage Lender;
- assist the Cash Manager in the preparation of an Asset Coverage and Investor Report substantially in the form set out in the Cash Management Agreement which will include information on the Loans and payments in arrears;
- provide to the LLP, the Security Trustee and the Rating Agencies a report on a quarterly basis containing information about the Loans and their Related Security comprised in the Portfolio, and a report on a quarterly basis, in a form agreed with the LLP, the Security Trustee and the Rating Agencies, containing certain information about the individual Loans in the Portfolio;
- with effect on and from the date on which the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations to the extent that the Issuer decides to apply, provide to the FSA such information on the composition the Loans and their Related Security contained in the Portfolio and/or such other information as the FSA may direct pursuant to the RCB Regulations;
- take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the LLP including, without limitation, the institution of proceedings and/or the enforcement of any Loan sold by the Seller to the LLP comprised in the Portfolio or its Related Security; and

- enforce any Loan which is in default in accordance with the Seller's enforcement procedures or, to the extent that such enforcement procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the LLP.

The Servicer (in its capacity as the servicer of the Loans and their Related Security in the Portfolio on behalf of the LLP) will undertake not to agree to a Product Switch or make, or permit to be made, a Further Advance to a Borrower if to do so would cause the LLP to be in contravention of the FSMA. The Seller (in its capacity as such) may agree to a Product Switch or make a Further Advance if it repurchases the Loan that is the subject of the Product Switch or Further Advance in accordance with the Mortgage Sale Agreement and if by doing so the LLP would not thereby be in contravention of the FSMA.

The Servicer also undertakes that, upon the Servicer or, if the Servicer benefits from the Parent Support Deed or any other parent support deed from time to time, Lloyds TSB Bank plc as the parent under the Parent Support Deed or such other parent as is relevant from time to time ceasing to be assigned a long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or ceasing to be assigned a short-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least A-2 it will use reasonable endeavours to enter into a new or a master servicing agreement (in such form as the LLP and the Security Trustee shall reasonably require) with a third party within 60 days under which such third party will undertake the servicing obligations in relation to the Portfolio.

*Setting of LLP Standard Variable Rate and variable rates in relation to Tracker Loans*

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set, in relation to the Loans in the Portfolio, the LLP Standard Variable Rate and any other discretionary rates or margins applicable in relation to the Loans comprising the Portfolio from time to time, except in the limited circumstances described below when the LLP will be entitled to do so. The Servicer will not (except in limited circumstances) at any time set or maintain:

- the LLP Standard Variable Rate applicable to any Variable Rate Loan in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Lloyds TSB Standard Variable Rate which applies to Loans beneficially owned by the Seller outside the Portfolio; or
- any other discretionary rate or margin in respect of any other Loan in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin of the Seller, which applies to that type of Loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date immediately preceding each LLP Payment Date, having regard to the aggregate of:

- the revenue which the LLP would expect to receive during the next succeeding LLP Payment Period (the **Relevant LLP Payment Period**);
- the LLP Standard Variable Rate and any other discretionary rates or margins applicable in respect of the Loans which the Servicer proposes to set for the relevant LLP Payment Period under the Servicing Agreement; and
- the other resources available to the LLP including those under the Interest Rate Swap Agreement, the relevant Covered Bond Swap Agreements and the Reserve Fund,

whether the LLP would receive an amount of revenue during the relevant LLP Payment Period which, when aggregated with the funds otherwise available to it, is less than the amount which is the aggregate of: (1) the amount in respect of interest which would be payable (or provisioned to be paid) under the Intercompany Loan Agreement or, if a Notice to Pay has been served, the Covered Bond Guarantee on each LLP Payment Date falling at the end of the Relevant LLP Payment Period and relevant amounts payable (or provisioned to be paid) to the Covered Bond Swap Providers under the Covered Bond Swap Agreements in respect of all Covered Bonds on the LLP Payment Date falling at the end of the Relevant LLP Payment Period and (2) the other amounts payable by the LLP ranking in priority thereto in accordance with the relevant Priority of Payments applicable prior to an LLP Event of Default (the **Interest Rate Shortfall Test**). If the Servicer determines that there will be any shortfall on such Calculation Date (the **Interest Rate Shortfall**), the Interest Rate Shortfall Test shall not be met.

If the Servicer determines that the Interest Rate Shortfall Test will not be met on such Calculation Date, it will within one London Business Day of such determination give written notice to the LLP, the Seller and the

Security Trustee of the amount of such Interest Rate Shortfall and of the LLP Standard Variable Rate and/or any other discretionary rates or margins applicable which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no Interest Rate Shortfall to arise and the Interest Rate Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other discretionary rates or margins would take effect, and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions, as regards the competing interests of Borrowers with Variable Rate Loans and Borrowers with other relevant Loans. For the avoidance of doubt, any action taken by the Servicer to set the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions.

If the LLP notifies the Servicer (copied to the Seller) that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other discretionary rates or margins should be increased, the Servicer shall take all steps which are necessary, including publishing any notice which is required in accordance with the Mortgage Conditions, to effect such change in the LLP Standard Variable Rate and/or any other discretionary rates or margins on the date(s) specified in the notice referred to in the paragraph above. In these circumstances the Servicer shall have the right to set the Lloyds TSB Standard Variable Rate and/or discretionary rates or margins of the Seller.

In addition, the Servicer shall determine on each Calculation Date following an Issuer Event of Default and if it remains outstanding, having regard to the aggregate of:

- (a) the LLP Standard Variable Rate and any other applicable discretionary rate or margin which the Servicer proposes to set for the Relevant LLP Payment Period under the Servicing Agreement; and
- (b) the other resources available to the LLP under the Interest Rate Swap Agreement,

whether the LLP would receive an aggregate amount of interest on the Loans and amounts under the Interest Rate Swap Agreement during the relevant LLP Payment Period which would give an annual yield on the Loans in the Portfolio of at least LIBOR plus 0.15 per cent. (the **Yield Shortfall Test**).

If the Servicer determines that the Yield Shortfall Test will not be met on such Calculation Date, it will within one London Business Day of such determination give written notice to the LLP, the Seller and the Security Trustee of the amount of the shortfall and of the LLP Standard Variable Rate and/or any other discretionary rates or margins applicable which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no shortfall to arise and the Yield Shortfall Test to be met, having regard to the date(s) (which shall be specified in the notice) on which such change to the LLP Standard Variable Rate and/or any other discretionary rates or margins applicable in relation to any other Loan sold by the Seller to the LLP and in the Portfolio would take effect, and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions, as regards the competing interests of Borrowers with Variable Rate Loans and Borrowers with other relevant Loans. For the avoidance of doubt, any action taken by the Servicer to set the LLP Standard Variable Rate and/or any other applicable discretionary rates or margins which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender, subject to the terms of the underlying Mortgage Conditions.

If the LLP notifies the Servicer that, having regard to the obligations of the LLP, the LLP Standard Variable Rate and/or any other discretionary rates or margins in relation to any Loans sold by the Seller to the LLP and in the Portfolio should be increased, the Servicer shall take all steps which are necessary, including publishing any notice which is required in accordance with the relevant Mortgage Conditions, to effect such change in the LLP Standard Variable Rate and/or any other discretionary rates or margins on the date(s) specified in the notice referred to above. In these circumstances the Servicer shall have the right to set the Lloyds TSB Standard Variable Rate and/or discretionary rates or margins of the Seller, subject to the terms of the underlying Mortgage Conditions.

The LLP and/or the Security Trustee may terminate the authority of or any direction to the Servicer to determine and set the LLP Standard Variable Rate and any other applicable discretionary rates or margins in relation to any Loans in the Portfolio on or after the occurrence of a Servicer Termination Event as defined under *Removal or resignation of the Servicer* below, in which case the LLP will set the LLP Standard Variable Rate and any other applicable discretionary rates or margins in relation to any such Loans in the Portfolio.

### *Remuneration*

The LLP shall pay to the Servicer a fee (inclusive of VAT) for its services (the **Servicing Fee**). Such Servicing Fee shall be calculated in relation to each Calculation Period and shall be payable to the Servicer in arrear on each LLP Payment Date.

### *Removal or resignation of the Servicer*

The LLP (subject to the prior written notice of the Security Trustee) may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of seven London Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Security Trustee or the LLP, as the case may be, requiring the same to be remedied;
- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the reasonable opinion of the Security Trustee is materially prejudicial to the interests of the Covered Bondholders, and the Servicer does not remedy that failure within 20 London Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the LLP or the Security Trustee requiring the Servicer's non-compliance to be remedied;
- an Insolvency Event occurs in relation to the Servicer; or
- the LLP resolves, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Security Trustee and the LLP (or such shorter time as may be agreed between the Servicer, the LLP and the Security Trustee) provided that a substitute servicer qualified to act as such under the FSMA and with a management team with experience of servicing residential mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the LLP substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Covered Bonds unless the Covered Bondholders agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver the Title Deeds and Customer Files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the LLP. The Servicing Agreement will terminate at such time as the LLP has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

Neither the Bond Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

The Servicing Agreement is governed by English law and will be made by way of deed.

### **Asset Monitor Agreement**

Under the terms of the Asset Monitor Agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Servicer and the Security Trustee, the Asset Monitor has agreed, subject to due receipt of the information to be provided by the Cash Manager to the Asset Monitor, to conduct tests in respect of the arithmetical accuracy of the calculations performed by the Cash Manager, prior to service of a Notice to Pay or an LLP Acceleration Notice, on the Calculation Date immediately prior to each anniversary of the Programme Date or at such other additional times as may be agreed from time to time with a view to confirmation of compliance by the LLP with the Asset Coverage Test on that Calculation Date. If and for so long as the long-term ratings of the Cash Manager or, if the Cash Manager benefits from the Parent Support Deed or such other parent support deed as may be relevant from time to time, Lloyds TSB Bank plc's as the parent under the Parent Support Deed or such other parent as is relevant from time to time are below BBB-/Baa3 (by S&P or Moody's, respectively) or whilst an Asset Coverage Test Breach Notice is outstanding, the Asset Monitor will, subject to receipt of the relevant information from the Cash Manager, be required to conduct such tests following each Calculation Date. Following service of a Notice to Pay (but prior to an LLP Event of

Default or service of an LLP Acceleration Notice), the Asset Monitor will also be required to test the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Amortisation Test.

Following a determination by the Asset Monitor of any errors in the arithmetical accuracy of the calculations performed by the Cash Manager such that the Asset Coverage Test or the Amortisation Test has been failed on the applicable Calculation Date (where the Cash Manager had recorded it as being satisfied) or the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount is mis-stated by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount or the Amortisation Test Aggregate Loan Amount, as applicable (as at the date of the relevant Asset Coverage Test or the relevant Amortisation Test), the Asset Monitor will be required to conduct such tests following each Calculation Date for a period of six months thereafter.

The Asset Monitor is entitled, except in certain limited circumstances, to assume that all information provided to it by the Cash Manager for the purpose of conducting such tests is true and correct and is complete and not misleading, and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy of any such information. The Asset Monitor Report will be delivered to the Cash Manager, the LLP, the Issuer, the Bond Trustee and the Security Trustee.

As at the Programme Date, the LLP will pay to the Asset Monitor an agreed upon amount for the tests to be performed by the Asset Monitor.

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

The Asset Monitor may, at any time, resign by giving at least 30 days' prior written notice to the LLP and the Security Trustee, and may resign by giving immediate notice in the event of a professional conflict of interest caused by the action of any recipient of its reports.

Upon the Asset Monitor giving notice of resignation, the LLP shall immediately use all reasonable endeavours to appoint a replacement (such replacement to be approved by the Security Trustee) which agrees to perform the duties of the Asset Monitor set out in the Asset Monitor Agreement. If a replacement is not appointed by the date which is 30 days prior to the date when tests are to be carried out in accordance with the terms of the Asset Monitor Agreement, then the LLP shall use all reasonable endeavours to appoint an accountancy firm to carry out the relevant tests on a one-off basis (such replacement to be approved by the Security Trustee unless the replacement is an accountancy firm of national standing).

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

The Asset Monitor Agreement is governed by English law.

## **LLP Deed**

The Members of the LLP have agreed to operate the business of the LLP in accordance with the terms of a limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as amended and/or supplemented and/or restated from time to time, the **LLP Deed**). A management board comprised as of the Programme Date of directors, officers and/or employees of the Lloyds TSB Group will manage and conduct the business of the LLP and will have all the rights, power and authority to act at all times for and on behalf of the LLP, subject to certain decisions reserved to the Members in the LLP Deed.

### *Members*

As at the Programme Date, each of the Seller and the Liquidation Member is a member (each a **Member**, and together with any other members from time to time, the **Members**) of the LLP. The Seller and the Liquidation Member are designated members (each a **Designated Member**, and together with any other designated members from time to time, the **Designated Members**) of the LLP. The Designated Members shall have such duties as are specified in the LLPA or otherwise at law and in the LLP Deed. The LLP Deed requires that there will at all times be at least two Designated Members of the LLP.

For so long as Covered Bonds are outstanding, if an administrator or a liquidator is appointed to the Seller or if the Seller disposes of its interest in the Liquidation Member such that the Seller holds less than 20 per cent. of the share capital of the Liquidation Member (without the consent of the LLP and, whilst any Covered Bonds are outstanding, the Security Trustee), the Seller will automatically cease to be a Member of the LLP and the outstanding balance of the Seller's Capital Contribution to the LLP will be converted into a subordinated debt obligation (the **Issuer Subordinated Loan**) owed by the LLP to Lloyds TSB Bank plc. In these circumstances, the Liquidation Member (acting on behalf of itself and the other Members) will admit a new Member to the LLP (which is a wholly-owned subsidiary of the Liquidation Member) and will appoint such New Member as a Designated Member pursuant to the terms of the LLP Deed (in each case with the prior written consent of the Security Trustee).

Any New Seller that wishes to sell New Seller Loans and their Related Security to the LLP will, amongst other things, be required to become a Member of the LLP and accede to the LLP Deed, amongst other documents. Other than in the case of a New Seller or the replacement of the Seller as a Member in the circumstances outlined in the previous paragraph, no New Member may be appointed without the consent of the Security Trustee and the receipt by the LLP or the Security Trustee of a Rating Agency Confirmation.

### *Capital Contributions*

From time to time the Seller (in its capacity as a Member) will make Capital Contributions to the LLP. Capital Contributions may be made in cash or in kind (e.g. through a contribution of Loans to the LLP). The Capital Contributions of the Seller shall be calculated in Sterling on each Calculation Date as the difference between (a) the Current Balance of Loans in the Portfolio as at the last day of the immediately preceding Calculation Period plus Principal Receipts standing to the credit of the Principal Ledger of the GIC Account plus the principal amount of Substitution Assets and Authorised Investments as at the last day of the immediately preceding Calculation Period and (b) the Sterling Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the immediately preceding Calculation Period. The LLP Deed does not impose any limit on the amount of Capital Contributions the Seller (in its capacity as a Member) may make to the LLP from time to time. Cash Capital Contributions will normally be credited to the Principal Ledger on the GIC Account and be applied as Available Principal Receipts. However, the Seller shall be entitled to require that the LLP credits Cash Capital Contributions to the Reserve Ledger on the GIC Account so that they may be applied as Available Revenue Receipts.

The Liquidation Member will not make any Capital Contributions to the LLP.

Capital Contributions or returns on Capital Contributions shall only be paid to Members after the LLP has paid or, as applicable, provided for all higher ranking amounts in the relevant Priority of Payments.

### *Asset Coverage Test*

Under the terms of the LLP Deed, the LLP and the Members (other than the Liquidation Member) must ensure that, on each Calculation Date prior to service of a Notice to Pay or an LLP Acceleration Notice, the Adjusted Aggregate Loan Amount is in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds as calculated on the relevant Calculation Date, then the LLP (or the Cash Manager on its behalf) shall notify in writing the Members, the Bond Trustee and the Security Trustee thereof and each Member (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*), transfer Substitution Assets or provide Cash Capital Contributions in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP and, should the Programme or any Series of Covered Bonds issued under the Programme be admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, shall send notice of the same to the FSA pursuant to the RCB Regulations. The Bond Trustee shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the third Calculation Date following the service of an Asset Coverage Test Breach Notice, the Asset Coverage Test is subsequently satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

For so long as an Asset Coverage Test Breach Notice is outstanding:

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

If an Asset Coverage Test Breach Notice has been served and not revoked on or before the third Calculation Date after service of such Asset Coverage Test Breach Notice, then an Issuer Event of Default shall occur and pursuant to Condition 9.1(d) the Bond Trustee shall be entitled (and, in certain circumstances may be required) to serve an Issuer Acceleration Notice. On the occurrence of an Issuer Event of Default, the Bond Trustee shall give notice of the same to the FSA pursuant to the RCB Regulations if the Programme or any Series of Covered Bonds issued under the Programme has been admitted to the register of regulated covered bonds under the RCB Regulations. Following service of an Issuer Acceleration Notice, the Bond Trustee will be required to serve a Notice to Pay on the LLP.

For the purposes hereof:

**Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$A + B + C + D + E - (X + Y + Z)$$

where,

A = the lower of (a) and (b), where:

- (a) = the sum of the **Adjusted Current Balance** of each Loan in the Portfolio as at the end of the relevant Calculation Period, which shall be the lower of:
  - (i) the Current Balance of the relevant Loan in the Portfolio as calculated as at the end of the relevant Calculation Period; and
  - (ii) the Indexed Valuation relating to that Loan multiplied by M (where for all Loans that are not Defaulted Loans, M = 0.75, for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75 per cent., M = 0.40 and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than to 75 per cent., M = 0.25),

*minus*

the aggregate sum of the following deemed reductions to the aggregate Adjusted Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security was, in the immediately preceding Calculation Period, identified as being in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or

- (2) the Seller, in the preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller and/or the Servicer to indemnify the LLP for such financial loss);

AND

- (b) = the aggregate **Arrears Adjusted Current Balance** of the Loans in the Portfolio as at the end of the relevant Calculation Period which shall be the lower of:
- (i) the Current Balance of the relevant Loan in the Portfolio as at the end of the relevant Calculation Period; and
- (ii) the Indexed Valuation relating to that Loan multiplied by N (where for all Loans that are not Defaulted Loans, N = 1, for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of less than or equal to 75 per cent., N = 0.40 and for all Loans that are Defaulted Loans and have a Current Balance to Indexed Valuation ratio of more than 75 per cent., N = 0.25);

*minus*

the aggregate sum of the following deemed reductions to the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (1) a Loan or its Related Security was, in the immediately preceding Calculation Period, identified as being in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Arrears Adjusted Current Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
- (2) the Seller, in any preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the immediately preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Arrears Adjusted Current Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the LLP in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the LLP by the Seller and/or the Servicer to indemnify the LLP for such financial loss),

*the result of which is multiplied by the Asset Percentage (as defined below);*

- B = the aggregate amount of any Principal Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Principal Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other

- Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Account and any Authorised Investments (but without double counting));
- C = the aggregate amount of any Cash Capital Contributions made by the Members (as recorded in the Capital Account Ledger of each Member) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with the LLP Deed and/or the other Transaction Documents;
- D = the aggregate principal amount of any Substitution Assets as at the relevant Calculation Date;
- E = the amount of any Sale Proceeds or Capital Contributions (to the extent not falling within "C" above) otherwise standing to the credit of the GIC Account and credited to the Pre-Maturity Liquidity Ledger as at the relevant Calculation Date;
- X = Nil or from and after the date that is the earliest of (i) the Issuer's short-term credit rating by S&P falling below A-1; or (ii) the Issuer's long-term credit rating by Moody's falling below A2; 4.5 per cent. (such percentage to be reviewed annually by the Issuer) of the aggregate Current Balance of the Loans in the Portfolio, as calculated on the relevant Calculation Date (or such other percentage as may be set, subject to the Issuer obtaining a Rating Agency Confirmation and notifying the Security Trustee from time to time);
- Y = 8 per cent. **multiplied by** the Flexible Draw Capacity (as defined below) **multiplied by** 3;
- Z = Nil or from and after the date that is the earliest of (i) the Issuer's short-term credit rating by S&P falling below A-1+; or (ii) the Issuer's long-term credit rating by Moody's falling below A2; the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor where the **Negative Carry Factor** is a percentage calculated by reference to the weighted average post Covered Bond Swap margin of the Covered Bonds plus the margin below the LIBOR payable on the GIC Account and will, in any event, be not less than 0.50 per cent.

Unless otherwise agreed with Moody's and provided that the Issuer has obtained a Rating Agency Confirmation from S&P, the **Asset Percentage** on any Calculation Date shall be the lowest of:

- (a) 85 per cent.;
- (b) the percentage figure as selected by the LLP (or the Cash Manager acting on its behalf), being the asset percentage that is necessary to ensure that the Covered Bonds maintain the then current rating assigned to them by S&P; or
- (c) the percentage figure as selected by the LLP (or the Cash Manager acting on its behalf) and notified to Moody's and the Security Trustee on such Calculation Date or, where the LLP (or the Cash Manager acting on its behalf) has not notified Moody's and the Security Trustee of the minimum percentage figure on the relevant Calculation Date, on the last date of such notification, as applicable, being the percentage figure that is necessary to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

**Flexible Draw Capacity** means, on a Calculation Date, the amount equal to the excess of (1) the maximum amount that Borrowers may draw under Flexible Loans included in the Portfolio (whether or not drawn) over (2) the aggregate Current Balance in respect of Flexible Loans in the Portfolio on such Calculation Date.

In addition, the LLP or the Cash Manager acting on its behalf may, from time to time, send notification to Moody's and the Security Trustee of the percentage figure selected by it, being the difference between 100 per cent. and the amount of credit enhancement required to ensure that the Covered Bonds achieve an "Aaa" rating by Moody's using Moody's expected loss methodology.

Save where otherwise agreed with S&P, the Asset Percentage will be adjusted in accordance with the various methodologies to ensure that sufficient credit enhancement will be maintained. Notwithstanding the above, the Asset Percentage may not, at any time, exceed 85 per cent. unless otherwise agreed with the S&P.

There is no obligation on the LLP to ensure that an "Aaa" rating is maintained by Moody's and the LLP is under no obligation to change the figure selected by it and notified to Moody's and the Security Trustee in line with the

level of credit enhancement required to ensure an "Aaa" rating by Moody's, using Moody's expected loss methodology.

#### *Amortisation Test*

The LLP and the Members (other than the Liquidation Member) must ensure that on each Calculation Date following service of a Notice to Pay on the LLP (but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date.

If on any Calculation Date following service of a Notice to Pay, the Amortisation Test Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on such Calculation Date, then the Amortisation Test will be deemed to be breached and an LLP Event of Default will occur. The LLP or the Cash Manager, as the case may be, will immediately notify the Members, the Security Trustee and, whilst Covered Bonds are outstanding, the Bond Trustee of any breach of the Amortisation Test.

The **Amortisation Test Aggregate Loan Amount** will be calculated on each Calculation Date as follows:

$$A + B + C - Z$$

where,

A= the aggregate **Amortisation Test Current Balance** of each Loan, which shall be the lower of:

- (a) the Current Balance of the relevant Loan as at the end of the relevant Calculation Period **multiplied by M**; and
- (b) 100 per cent. of the Indexed Valuation **multiplied by M**,

where for all Loans that are not Defaulted Loans  $M = 1$  or for all the Loans that are Defaulted Loans  $M = 0.7$ ;

B= the sum of the amount of any cash standing to the credit of the GIC Account and the principal amount of any Authorised Investments (excluding any Revenue Receipts received in the immediately preceding Calculation Period);

C= the aggregate principal amount of any Substitution Assets; and

Z= the weighted average remaining maturity of all Covered Bonds (expressed in years) then outstanding **multiplied by** the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds **multiplied by** the Negative Carry Factor.

#### *Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached*

The LLP Deed provides for sales of Selected Loans and their Related Security in circumstances where the Pre-Maturity Liquidity Test has been breached and the Pre-Maturity Liquidity Ledger is not funded by a Cash Capital Contribution by the Seller. The Pre-Maturity Liquidity Test will be breached if the ratings of the Issuer fall below a specified level and a Hard Bullet Covered Bond is due for repayment within a specified period of time thereafter (see further *Credit Structure – Pre-Maturity Liquidity Test* below). The LLP will be obliged to sell the Selected Loans and their Related Security to Purchasers, subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement, in accordance with the procedure summarised in – *Method of Sale of Selected Loans* below and subject to any Cash Capital Contribution made by the Members (other than the Liquidation Member). If the Issuer fails to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, then following the service of a Notice to Pay on the LLP, the proceeds from any sale of Selected Loans or the Cash Capital Contributions standing to the credit of the Pre-Maturity Liquidity Ledger will be applied to repay the relevant Series of Hard Bullet Covered Bonds. Otherwise, the proceeds will be applied as set out in *Credit Structure – Pre-Maturity Liquidity Test* below.

#### *Sale of Selected Loans and their Related Security whilst an Asset Coverage Test Breach Notice remains outstanding*

After service of an Asset Coverage Test Breach Notice and for so long as such Asset Coverage Test Breach Notice remains outstanding but prior to service of a Notice to Pay and/or the commencement of winding-up

proceedings against the LLP and/or realisation of the Security, the LLP will be obliged to sell Selected Loans in the Portfolio and their Related Security in accordance with the LLP Deed (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement and subject to any Cash Capital Contribution made by the Members. The proceeds from any such sale will be credited to the GIC Account and applied as set out in *Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and prior to service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security* below.

*Sale of Selected Loans and their Related Security following service of a Notice to Pay*

After service of a Notice to Pay on the LLP, but prior to service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, the LLP shall sell Selected Loans and their Related Security in the Portfolio in accordance with the LLP Deed (as described below), subject to the rights of pre-emption in favour of the Seller to buy the Selected Loans and their Related Security pursuant to the Mortgage Sale Agreement. The proceeds from any such sale will be credited to the GIC Account and applied as set out in the Guarantee Priority of Payments.

*Method of Sale of Selected Loans*

If the LLP is required to sell Selected Loans in the Portfolio and their Related Security to Purchasers following a breach of the Pre-Maturity Liquidity Test, whilst an Asset Coverage Test Breach Notice remains outstanding or following service of a Notice to Pay, the LLP will be required to ensure that:

- (a) the Selected Loans have been selected from the Portfolio on a random basis as described in the LLP Deed; and
- (b) the Selected Loans have an aggregate Current Balance in an amount (the **Required Current Balance Amount**) which is as close as possible to the amount calculated as follows:
  - (i) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their Current Balance, the Asset Coverage Test would be satisfied on the next Calculation Date taking into account the payment obligations of the LLP on the LLP Payment Date immediately following that Calculation Date (assuming for this purpose that the Asset Coverage Test Breach Notice is not revoked on or before the next Calculation Date); or
  - (ii) following a breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay:

$$N \times \frac{\text{Current Balance of all Loans in the Portfolio}}{\text{the Sterling Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to:

- (A) in respect of Selected Loans being sold following a breach of the Pre-Maturity Liquidity Test, the Sterling Equivalent of the Required Redemption Amount of the relevant Series of Hard Bullet Covered Bonds less amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or
- (B) in respect of the Selected Loans being sold following the service of a Notice to Pay, the Sterling Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the LLP Accounts and the principal amount of any Substitution Assets or Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

For the avoidance of doubt, the entire Portfolio may comprise Selected Loans.

For the purposes hereof:

**Required Redemption Amount** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

the Principal Amount Outstanding of the relevant Series of Covered Bonds  $\times$  (1+ Negative Carry Factor  $\times$  (days to maturity of the relevant Series of Covered Bonds/365))

The LLP will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (i) whilst an Asset Coverage Test Breach Notice is outstanding (but prior to service of a Notice to Pay), for an amount not less than the Current Balance of the Selected Loans; and
- (ii) following a breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay, for an amount not less than the Adjusted Required Redemption Amount.

For the purposes hereof:

**Adjusted Required Redemption Amount** means the Sterling Equivalent of:

- (a) the Sterling Equivalent of Required Redemption Amount; plus or minus
- (b) the Sterling Equivalent of any swap termination amounts (if any) payable under the Covered Bond Swap Agreement by the LLP in respect of the relevant Series of Covered Bonds less (where applicable):
  - (i) in respect of a sale of Loans in connection with the Pre-Maturity Liquidity Test, amounts standing to the credit of the Pre-Maturity Liquidity Ledger that are not otherwise required to provide liquidity for any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds; or
  - (ii) in respect of a sale of Loans following service of a Notice to Pay, amounts standing to the credit of the LLP Accounts and the Sterling Equivalent of the principal balance of any Substitution Assets and Authorised Investments (excluding all amounts to be applied on the next following LLP Payment Date to pay or repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds; plus or minus;
- (c) any swap termination amounts payable to or by the LLP under the Interest Rate Swap Agreement in respect of the relevant Series of Covered Bonds.

Following a breach of the Pre-Maturity Liquidity Test or a service of the Notice to Pay, if the Selected Loans have not been sold (in whole or in part) in an amount at least equal to the Adjusted Required Redemption Amount by the date which is six months prior to, as applicable, the Final Maturity Date of the Earliest Maturing Covered Bonds (where the Earliest Maturing Covered Bonds are not subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee), or the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds (after taking into account all payments, provisions and credits to be made in priority thereto) (where the Earliest Maturing Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee) or the Final Maturity Date of the relevant Series of Hard Bullet Covered Bonds in respect of a sale in connection with the Pre-Maturity Liquidity Test, then the LLP will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Adjusted Required Redemption Amount.

Following service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the LLP (subject to the rights of pre-emption in favour of the Seller pursuant to the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with the provisions summarised above, in respect of other Series of Covered Bonds, provided that any such sale of Selected Loans is for an amount not less than the Adjusted Required Redemption Amount in respect of that Series of Covered Bonds or, where the sale occurs within six months prior to the Final Maturity Date or Extended Due for Payment Date (as applicable) for that Series of Covered Bonds, the best price reasonably available in accordance with the above paragraph.

The LLP is also permitted to offer for sale to Purchasers part of any portfolio of Selected Loans (a **Partial Portfolio**). Except in circumstances where the portfolio of Selected Loans is being sold within six months prior to the Final Maturity Date or, as applicable, if the Covered Bonds subject to an Extended Due for Payment Date in respect of the Series of Covered Bonds to be repaid from such proceeds or, in respect of a sale in connection with the Pre-Maturity Liquidity Test, the Final Maturity Date of the relevant series of Hard Bullet Covered Bonds, the sale price of the Partial Portfolio (as a proportion of the Adjusted Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

The LLP will through a tender process appoint a portfolio manager of recognised standing approved by the Security Trustee (the **Portfolio Manager**) on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Loans in accordance with the LLP Deed to Purchasers (except where the Seller is buying the Selected Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment of the Portfolio Manager shall be in such form as is approved by the Security Trustee. The Security Trustee shall approve the appointment of the Portfolio Manager if (i) the Portfolio Manager is an investment bank or accountant of recognised standing and (ii) two authorised signatories of the LLP have certified to the Security Trustee that such appointment is on a basis intended to incentivise the Portfolio Manager to achieve the best price for the sale of the Selected Loans (on terms that are commercially available in the market), which certificate shall be conclusive and binding on all parties.

In respect of any sale or refinancing of Selected Loans and their Related Security for so long as an Asset Coverage Test Breach Notice is outstanding or following service on the LLP of a Notice to Pay, the LLP will instruct the Portfolio Manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable and in accordance with its recommendations (which shall take into account the market conditions at that time and the scheduled repayment dates of the Covered Bonds and the terms of the LLP Deed).

The terms of any sale and purchase agreement with respect to the sale or refinancing of Selected Loans and their Related Security will be subject to the prior written approval of the Security Trustee. The Security Trustee will not be required to release the Selected Loans from the Security unless the conditions relating to the release of the Security (as described under – *Deed of Charge – Release of Security* below) are satisfied.

If Purchasers accept the offer or offers from the LLP or the portfolio manager on its behalf so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds or the Hard Bullet Covered Bonds or, if the Covered Bonds are subject to an Extended Due for Payment Date in respect of the Covered Bond Guarantee, the Extended Due for Payment Date in respect of the Earliest Maturing Covered Bonds, then the LLP will, subject to the foregoing paragraph, enter into a sale and purchase agreement with the relevant Purchasers which will require, *inter alia*, a cash payment from the relevant Purchasers. Any such sale will not include any representations and warranties from the LLP or the Seller in respect of the Loans and their Related Security unless expressly agreed by the Security Trustee and unless otherwise agreed with the Seller.

#### *Covenants of the LLP and the Members*

Each of the Members covenants that (amongst other things), subject to the terms of the Transaction Documents, it will not sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in or otherwise dispose of its interest in the LLP without the prior written consent of the LLP and, whilst the Covered Bonds are outstanding, the Security Trustee. Whilst any amounts are outstanding in respect of the Covered Bonds, each of the Members undertakes not to dissolve or purport to dissolve the LLP or institute any winding-up, administration, insolvency or similar proceedings against the LLP.

The LLP covenants that (amongst other things) it will not, save with the prior written consent of the LLP Management Board (and, for so long as any Covered Bonds are outstanding, the consent of the Security Trustee) or as envisaged by or pursuant to the Transaction Documents:

- (a) create or permit to subsist any Security Interest (unless arising by operation of law) upon the whole or any part of its assets or undertakings, present or future;
- (b) sell, assign, transfer, convey, lend, part with, charge, declare a trust over, create any beneficial interest in or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of

the Charged Property or any of its interest, estate, right, title or benefit therein or thereto or agree or attempt to purport to do so;

- (c) have an interest in a bank account other than the LLP Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to it;
- (d) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with any person or convey or transfer its property or assets substantially as an entirety to any other person;
- (f) have any employees, premises or subsidiaries;
- (g) acquire assets;
- (h) engage in any activities in the United States (directly or through agents) or derive any income from the United States sources as determined under the United States income tax principles or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States;
- (i) enter into any contracts, agreements or other undertakings;
- (j) compromise, compound or release any debt due to it;
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets; or
- (l) be a member of any VAT group.

The LLP and each of the Members further covenants that from and including the date on which the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations (to the extent that the Issuer decides to apply) it will, amongst other things:

- (a) ensure that the Asset Pool will only comprise of those assets set out in items (a) to (h) of Regulation 3(1) (Asset Pool) of the RCB Regulations;
- (b) ensure that the Loans and the Related Security, the Substitution Assets and the Authorised Investments contained in the Asset Pool comply with the definition of **eligible property** in Regulation 2 (*Eligible Property*) of the RCB Regulations;
- (c) keep a record of those assets that form part of the Asset Pool which, for the avoidance of doubt, shall not include any Swap Collateral; and
- (d) at all times comply with its obligations under the RCB Regulations and/or the FSA Regulated Covered Bond Sourcebook.

#### *Limit on Investing in Substitution Assets and Authorised Investments*

Provided no Asset Coverage Test Breach Notice is outstanding and prior to the service on the LLP of a Notice to Pay, the LLP will be permitted to invest Available Revenue Receipts, Available Principal Receipts and the proceeds of Term Advances in Substitution Assets, provided that the aggregate amount so invested in such Substitution Assets does not exceed 10 per cent. of the total assets of the LLP at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement. Placing such amounts in any LLP Account will not constitute an investment in Substitution Assets for these purposes.

For so long as an Asset Coverage Test Breach Notice is outstanding or following service on the LLP of a Notice to Pay, all Substitution Assets must be sold by the LLP (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account and the LLP will be permitted to invest all available moneys in Authorised Investments, provided that such investments are made in accordance with the terms of the Cash Management Agreement.

There is no limit on the amounts that the LLP shall be entitled to invest in Authorised Investments.

### *Other Provisions*

The allocation and distribution of Revenue Receipts, Principal Receipts and all other amounts received by the LLP is described under *Cashflows* below.

The LLP Management Board, comprised as at the Programme Date of directors, officers and/or employees of the Lloyds TSB Group, will act on behalf of the LLP to which (other than certain specified decisions which require a unanimous decision of the Members, including (without limitation) any decision to appoint or remove the auditors of the LLP and determine the remuneration of such auditors, approve the audited accounts of the LLP and the payment of distributions, to make a resolution for the voluntary winding-up of the LLP or to contribute to the losses of the LLP) the Members delegate all matters. Any decision by the LLP Management Board relating to waiving certain indemnities provided to the LLP, any transfer of the whole or any part of or any change in the LLP's business and any change to the LLP's name will be made, whilst any Covered Bonds are outstanding, with the consent of the Security Trustee.

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

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

Following the appointment of a liquidator to the Seller or the disposal by the Seller of its interest in the shares of the Liquidation Member (other than with the consent of the LLP and, for as long as any Covered Bonds are outstanding, the Security Trustee), any decisions of the LLP that are reserved to the Members in the LLP Deed shall be made by the Liquidation Member only, the Seller shall cease to be a Member of the LLP and the Liquidation Member shall become entitled to appoint a Subsidiary of the Liquidation Member as a Member of the LLP.

The LLP Deed is governed by English law.

### **Cash Management Agreement**

The Cash Manager will provide certain cash management services to the LLP pursuant to the terms of the Cash Management Agreement entered into on the Programme Date between the LLP, C&G in its capacity as the Cash Manager and the Security Trustee.

The Cash Manager's services include but are not limited to:

- (a) maintaining the Ledgers on behalf of the LLP;
- (b) maintaining records of all Authorised Investments and/or Substitution Assets, as applicable;
- (c) distributing the Revenue Receipts and the Principal Receipts in accordance with the Priorities of Payment described under *Cashflows* below;
- (d) determining whether the Asset Coverage Test is satisfied on each Calculation Date in accordance with the LLP Deed, as more fully described under *Credit Structure – Asset Coverage Test* below;
- (e) determining whether the Amortisation Test is satisfied on each Calculation Date following the service of a Notice to Pay in accordance with the LLP Deed, as more fully described under *Credit Structure – Amortisation Test* below;
- (f) on each London Business Day, determining whether the Pre-Maturity Liquidity Test for each Series of Hard Bullet Covered Bonds is satisfied as more fully described under *Credit Structure – Pre-Maturity Liquidity Test* below;
- (g) to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, providing the FSA with information on the composition of any Substitution Assets and/or Authorised Investments comprised in the assets of the LLP and/or such other information as may be required by the FSA in accordance with the RCB Regulations; and

- (h) preparation of the Asset Monitor and Investor Report for the Covered Bondholders, the Rating Agencies and the Bond Trustee.

In certain circumstances the LLP and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement is governed by English law.

### **Interest Rate Swap Agreement**

Some of the Loans in the Portfolio from time to time will pay a variable rate of interest for a period of time that may (subject to the Servicer's ability to set the LLP Standard Variable Rate, as to which see *Summary of the Principal Documents – Mortgage Sale Agreement*) either be linked to the Lloyds TSB Standard Variable Rate or linked to an interest rate other than the Lloyds TSB Standard Variable Rate, such as Sterling LIBOR or a rate that tracks the Bank of England base rate. Other Loans will pay a fixed rate of interest for a period of time. However, the Sterling payments to be made by the LLP under each of the Covered Bond Swaps will be based on Sterling LIBOR and, in addition, the LLP's obligations to make interest payments under the outstanding Term Advances, or (following service on the LLP of a Notice to Pay or an LLP Acceleration Notice) the Covered Bond Guarantee, may be based on Sterling LIBOR. To provide a hedge against the possible variance between:

- (a) the rates of interest payable on the Loans in the Portfolio; and
- (b) Sterling LIBOR,

the LLP, the Interest Rate Swap Provider and the Security Trustee will enter into an Interest Rate Swap in respect of all Series of Covered Bonds under the Interest Rate Swap Agreement.

Under the terms of the Interest Rate Swap, in the event that the relevant rating of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Interest Rate Swap, arranging for its obligations under the Interest Rate Swap to be transferred to an entity with ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap- (such guarantee to be provided in accordance with the then-current guarantee criteria of each of the Rating Agencies), or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the LLP to terminate the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement may also be terminated in certain other circumstances, including (without limitation) pursuant to any other events of default and termination events set out in the Interest Rate Swap Agreement (each referred to as an **Interest Rate Swap Early Termination Event**), including:

- at the option of any party to the Interest Rate Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under the Interest Rate Swap Agreement; and
- upon the occurrence of the insolvency of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's obligations, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap Agreement.

Upon the termination of the Interest Rate Swap pursuant to an Interest Rate Swap Early Termination Event, the LLP or the Interest Rate Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the Interest Rate Swap Agreement.

The amount of this termination payment will be calculated and made in Sterling. Any termination payment made by the Interest Rate Swap Provider to the LLP in respect of the Interest Rate Swap will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Interest Rate Swap Provider to enter into a replacement Interest Rate Swap with the LLP, unless a replacement Interest Rate Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Interest Rate Swap Provider in respect of a replacement Interest Rate Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Interest

Rate Swap, unless such termination payment has already been made on behalf of the LLP. If the LLP or a Member of the LLP receives any Tax Credits in respect of an Interest Rate Swap prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, payments in respect of such Tax Credits will be used, to the extent provided for in the Interest Rate Swap Agreement, to reimburse the Interest Rate Swap Provider for any gross up in respect of any withholding or deduction made under the Interest Rate Swap Agreement.

Prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of the Interest Rate Swap will be paid to the Interest Rate Swap Provider subject to the terms of the Interest Rate Swap Agreement.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Interest Rate Swap Provider to the LLP under the Interest Rate Swap, the Interest Rate Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Interest Rate Swap Provider under the Interest Rate Swap, the LLP shall not be obliged to gross up those payments.

The Interest Rate Swap Provider may transfer all its interest and obligations in and under the Interest Rate Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions, including, in certain circumstances, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected. If the LLP is required to sell Selected Loans in the Portfolio in order to remedy a breach of the Asset Coverage Test following service of an Asset Coverage Test Breach Notice or in order to provide liquidity in respect of any Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that are Hard Bullet Covered Bonds or has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to service of an LLP Acceleration Notice) following breach of the Pre-Maturity Liquidity Test or service of a Notice to Pay or an LLP Acceleration Notice, then the LLP may either:

- (a) require, by written notice given not more than 20 and not less than 5 local Business Days in advance of the date of the relevant sale, that the Interest Rate Swap in connection with such Selected Loans will partially terminate and any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating the Adjusted Required Redemption Amount for the sale of the Selected Loans; or
- (b) request that the Interest Rate Swap be partially novated to the Purchaser of such Selected Loans, such that each Purchaser of Selected Loans will thereby become party to a separate interest rate swap transaction with the Interest Rate Swap Provider.

Under the Interest Rate Swap Agreement, recourse in respect of the LLP's obligations are limited to the Charged Property.

The Interest Rate Swap Agreement is (and each Interest Rate Swap thereunder will be) governed by English law.

### **Covered Bond Swap Agreements**

Where Covered Bonds are issued in a currency and/or on an interest rate basis different to the Interest Rate Swap, the LLP will enter into one or more Covered Bond Swaps with one or more Covered Bond Swap Providers and the Security Trustee. Each Covered Bond Swap may be either a **Forward Starting Covered Bond Swap** or a **Non-Forward Starting Covered Bond Swap** and each will constitute the sole Transaction (as described in the relevant Covered Bond Swap) under a single **Covered Bond Swap Agreement** (such Covered Bond Swap Agreements, together, the **Covered Bond Swap Agreements**). Where the LLP enters into a Forward Starting Covered Bond Swap, the Term Advances made under the Intercompany Loan will be made in Sterling, regardless of the currency of the relevant Series or Tranche, as applicable, of Covered Bonds.

Each Forward Starting Covered Bond Swap will provide a hedge (after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Covered Bond Guarantee in respect of the Covered Bonds.

Each Non-Forward Starting Covered Bond Swap will provide a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice) and under the Covered Bond Guarantee in respect of the Covered Bonds (after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice).

Where required to hedge such risks, there will be one (or more) Covered Bond Swap Agreement(s) and Covered Bond Swap(s) in relation to each Series or Tranche, as applicable, of Covered Bonds.

Under the Forward Starting Covered Bond Swaps, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date, after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, an amount equal to the relevant portion of the amounts that are payable by the LLP under the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will periodically pay to the Covered Bond Swap Provider on each Interest Payment Date, after service of a Notice to Pay on the LLP or service of an LLP Acceleration Notice, an amount in Sterling calculated by reference to Sterling LIBOR plus a spread.

Under the Non-Forward Starting Covered Bond Swaps on the relevant Issue Date, the LLP will pay to the Covered Bond Swap Provider an amount equal to the relevant portion of the amount received by the LLP under the applicable Term Advance (being the aggregate nominal amount of such Series or Tranche, as applicable, of Covered Bonds) and in return the Covered Bond Swap Provider will pay to the LLP the Sterling Equivalent of that amount. Thereafter, the Covered Bond Swap Provider will pay to the LLP on each Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series or Tranche of Covered Bonds. In return, the LLP will periodically pay to the Covered Bond Swap Provider an amount in Sterling calculated by reference to Sterling LIBOR plus a spread and, where relevant, the Sterling Equivalent of the relevant portion of any principal due to be repaid in respect of the relevant Term Advance in accordance with the Intercompany Loan Agreement.

However, under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the Issuer fails to pay the principal amount payable to the Covered Bondholders in respect of a Series of Covered Bonds on the Final Maturity Date of such Series and the Series has a period of extension (whereby the principal amount due on such series of Covered Bonds is deferred for up to one year), then the LLP will pay an amount to the Covered Bond Swap Provider by reference to Sterling LIBOR payable on the monthly Interest Payment Date and the Covered Bond Swap Provider will pay to the LLP on each monthly Interest Payment Date an amount equal to the relevant portion of the amounts that would be payable by the LLP under either the applicable Term Advance in accordance with the terms of the Intercompany Loan Agreement or the Covered Bond Guarantee in respect of interest and principal payable under the relevant Series of Covered Bonds.

Under the terms of each Forward Starting Covered Bond Swap and each Non-Forward Starting Covered Bond Swap, in the event that the relevant rating of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations is downgraded by a Rating Agency below the rating specified in the relevant Covered Bond Swap Agreement (in accordance with the requirements of the Rating Agencies) for the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, the Covered Bond Swap Provider will, in accordance with the relevant Covered Bond Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Covered Bond Swap, arranging for its obligations under the Covered Bond Swap to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with the ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations under the Covered Bond Swap Agreement (such guarantee to be provided in accordance with the then-current guarantee criteria of each of the Rating Agencies), or taking such other action as it may agree with the relevant Rating Agency. In addition, if the net exposure of the LLP against the Covered Bond Swap Provider under the relevant Covered Bond Swap exceeds the threshold specified in the relevant Covered Bond Swap Agreement, the Covered Bond Swap Provider may be required to provide collateral for its obligations. A failure to take such steps will, subject to certain conditions, allow the LLP to terminate the Covered Bond Swap.

A Covered Bond Swap Agreement may also be terminated in certain other circumstances, including (without limitation) pursuant to any other events of default and termination events set out in the relevant Covered Bond Swap Agreement (each referred to as a **Covered Bond Swap Early Termination Event**), including:

- at the option of any party to the Covered Bond Swap Agreement, if there is a failure by the other party to make timely payments of any amounts due under such Covered Bond Swap Agreement; and
- upon the occurrence of an insolvency of the Covered Bond Swap Provider or any guarantor of the Covered Bond Swap Provider's obligations, or the merger of the Covered Bond Swap Provider without an assumption of its obligations under the relevant Covered Bond Swap Agreement.

Upon the termination of a Covered Bond Swap, the LLP or the Covered Bond Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Covered Bond Swap Agreement. The amount of this termination payment will be calculated and made in Sterling. Any termination payment made by the Covered Bond Swap Provider to the LLP in respect of a Covered Bond Swap will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Covered Bond Swap Provider to enter into a replacement Covered Bond Swap with the LLP, unless a replacement Covered Bond Swap has already been entered into on behalf of the LLP. Any premium received by the LLP from a replacement Covered Bond Swap Provider in respect of a replacement Covered Bond Swap will first be used to make any termination payment due and payable by the LLP with respect to the previous Covered Bond Swap, unless such termination payment has already been made on behalf of the LLP. If the LLP or a Member of the LLP receives any Tax Credits in respect of a Covered Bond Swap prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, payments in respect of such Tax Credits will be used, to the extent provided for in the relevant Covered Bond Swap Agreement, to reimburse the relevant Covered Bond Swap Provider for any gross up in respect of any withholding or deduction made under the relevant Covered Bond Swap Agreement.

Prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Covered Bond Swap will be paid to the Covered Bond Swap Provider subject to the terms of the relevant Covered Bond Swap Agreement.

If a withholding or deduction for or on account of taxes is imposed on payments made by the Covered Bond Swap Provider to the LLP under a Covered Bond Swap, the Covered Bond Swap Provider shall always be obliged to gross up those payments so that the amount received by the LLP is equal to the amount which would have been received in the absence of such withholding or deduction. If a withholding or deduction for or on account of taxes is imposed on payments made by the LLP to the Covered Bond Swap Provider under a Covered Bond Swap, the LLP shall not be obliged to gross up those payments.

The Covered Bond Swap Provider may transfer all its interest and obligations in and under the relevant Covered Bond Swap Agreement to a transferee with the minimum ratings required by each of the Rating Agencies, without any prior written consent of the Security Trustee, subject to certain conditions, including, in certain circumstances, confirmation from the Rating Agencies that the then current ratings of the relevant Series of the Covered Bonds will not be adversely affected.

In the event that the Covered Bonds are redeemed and/or cancelled in accordance with the Terms and Conditions, the Covered Bond Swap(s) in connection with such Covered Bonds will terminate or partially terminate, as the case may be. Any breakage costs payable by or to the LLP in connection with such termination will be taken into account in calculating:

- (a) the Adjusted Required Redemption Amount for the sale of Selected Loans; and
- (b) the purchase price to be paid for any Covered Bonds purchased by the LLP in accordance with Condition 6.9.

Under any Covered Bond Swap Agreement, recourse in respect of the LLP's obligations will be limited to the Charged Property.

The Covered Bond Swap Agreements are (and each Covered Bond Swap thereunder, will be) governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee, the LLP will maintain with the GIC Provider the GIC Account and with the Account Bank a Transaction Account and (where appropriate) the Swap Collateral Account(s), which will be operated in accordance with the Cash Management Agreement, the LLP Deed, the Deed of Charge and the relevant Swap Agreements. The GIC Provider has agreed to pay

interest on the moneys standing to the credit of the GIC Account at specified rates determined in accordance with the Bank Account Agreement and the Guaranteed Investment Contract.

All amounts received from Borrowers in respect of Loans in the Portfolio will be paid into the GIC Account and credited to the Revenue Ledger or the Principal Ledger, as the case may be and as set out in the Cash Management Agreement. On each LLP Payment Date, as applicable, amounts required to meet the claims of the LLP's various creditors and amounts to be distributed to the Members under the LLP Deed will be transferred from the Revenue Ledger, the Principal Ledger, the Reserve Ledger or the Capital Account Ledger, as applicable, to the Transaction Account and applied by the Cash Manager pursuant to the Cash Management Agreement and in accordance with the Priorities of Payments described below under *Cashflows*.

The GIC Account, the Transaction Account and the Swap Collateral Accounts may be required to be transferred to an alternative bank in certain circumstances, including if the Account Bank fails to have any of the Account Bank Required Ratings.

The Bank Account Agreement is governed by English law.

### **Corporate Services Agreement**

The LLP, the Liquidation Member and Holdings have entered into a Corporate Services Agreement with Structured Finance Management Limited (as Corporate Service Provider) on the Programme Date, pursuant to which the Corporate Services Provider has agreed to provide corporate services to the LLP, the Liquidation Member and Holdings respectively.

The Corporate Services Agreement is governed by English law.

### **Issuer-ICSDs Agreement**

The Issuer has entered into an Issuer-ICSDs Agreement with Euroclear Bank S.A./N.V. and Clearstream Banking SA (the **ICSDs**) in respect of any Covered Bonds issued in NGCB form. The Issuer-ICSDs Agreement provides that the ICSDs will, in respect of any such NGCBs, maintain their respective portion of the issue outstanding amount through their records.

The Issuer-ICSDs Agreement is governed by English law.

### **Deed of Charge**

Pursuant to the terms of the Deed of Charge entered into on the Programme Date by the LLP, the Security Trustee and the other Secured Creditors, the obligations of the LLP under or pursuant to the Transaction Documents to which it is a party are secured, *inter alia*, by the following security (the **Security**) over the following property, assets and rights (the **Charged Property**):

- (a) a first ranking fixed charge (which may take effect as a floating charge) over the LLP's interest in the English Loans and their Related Security and other related rights comprised in the Portfolio;
- (b) an assignation in security of the LLP's interest in the Scottish Loans and their Related Security (comprising the LLP's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust);
- (c) an assignment by way of first fixed security over all of the LLP's interests, rights and entitlements under and in respect of the Transaction Documents (other than the Deed of Charge and any Scottish Declaration of Trust) to which it is a party;
- (d) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in the LLP Accounts (including the Excess Proceeds) and any other account of the LLP and all amounts standing to the credit of the LLP Accounts and such other accounts;
- (e) a first fixed charge (which may take effect as a floating charge) over the rights and benefits of the LLP in respect of all Authorised Investments and Substitution Assets purchased from time to time from amounts standing to the credit of the LLP Accounts;
- (f) a first floating charge over (i) all the assets and undertaking of the LLP governed by English law and not, from time to time, subject to any fixed charge in favour of the Security Trustee pursuant to the Deed of Charge and (ii) all the assets and undertaking of the LLP located in or governed by Scots law (whether or not subject to any fixed charge as aforesaid); and

- (g) an assignment by way of first fixed security (or to the extent not assignable, charges by way of first fixed charge) over all of its rights, title, interest and benefit in the CCA Trust Property.

In respect of the property, rights and assets referred to in paragraph (b) above, fixed security will be created over such property, rights and assets sold to the LLP after the Programme Date by means of Scottish Supplemental Charges pursuant to the Deed of Charge. In the event of the delivery of Scottish transfers pursuant to the Mortgage Sale Agreement, the LLP will deliver Scottish Sub-Securities in respect of the Scottish Loans and their related Scottish Mortgages then in the Portfolio to the Security Trustee.

#### *Release of Security*

In the event of any sale of Loans (including Selected Loans) and their Related Security by the LLP pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the LLP and at the cost and expense of the Seller), release those Loans and their Related Security from the Security created by and pursuant to the Deed of Charge on the date of such sale but only if:

- (i) in the case of the sale of Selected Loans, the Security Trustee provides its prior written consent to the terms of such sale as described under – *LLP Deed – Method of Sale of Selected Loans* above;
- (ii) the LLP provides a certificate to the Security Trustee that such sale of Loans and their Related Security has been made in accordance with the terms of the Transaction Documents; and
- (iii) in the case of the sale of Selected Loans, the LLP provides to the Security Trustee a certificate confirming that the Selected Loans being sold have been selected on a random basis.

In the event of the repurchase of a Loan and its Related Security by the Seller pursuant to and in accordance with the Transaction Documents, the Security Trustee will (subject to the written request of the Servicer, acting on behalf of the LLP and at the cost and expense of the Issuer) release that Loan and its Related Security from the Security created by and pursuant to the Deed of Charge on or prior to the date of the repurchase.

#### *Enforcement*

If an LLP Acceleration Notice is served on the LLP, the Security Trustee shall be entitled to, and shall if so directed by the Bond Trustee (for so long as any Covered Bonds are outstanding), appoint a Receiver, and/or enforce the Security constituted by the Deed of Charge (including selling the Portfolio), and/or take such steps as it shall deem necessary, subject in each case to being indemnified and/or secured to its satisfaction. All proceeds (other than any Tax Credit (including, for the avoidance of doubt, any amounts received by the LLP from a Member in respect of Tax Credits), Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amounts) received by the Security Trustee or any Receiver from the enforcement or realisation of the Security will be applied in accordance with the Post-Enforcement Priority of Payments described under *Cashflows*.

#### *Governing Law*

The Deed of Charge is governed by English law (other than the assignation in security referred to in paragraph (b) above and any Scottish Supplemental Charge granted after the Programme Date pursuant and supplemental to the Deed of Charge and any Scottish Sub-Security which will, in each case, be governed by Scots law).

#### **Parent Support Deed**

Pursuant to the Parent Support Deed, Lloyds TSB Bank plc has undertaken to use its best efforts to procure that, for so long as C&G is the Servicer or the Cash Manager, C&G (or another company within the Lloyds TSB Group) shall perform its obligations under the Servicing Agreement and the Cash Management Agreement until:

- (a) termination of the Servicing Agreement or the Cash Management Agreement, in each case in accordance with the provisions thereof;
- (b) the appointment of a substitute servicer or cash manager, in accordance with the terms of the Servicing Agreement or the Cash Management Agreement; or
- (c) the obtaining by C&G (or any replacement Servicer and/or Cash Manager within the Lloyds TSB Group) of long-term, unguaranteed and unsecured credit ratings from each of the Rating Agencies of not less than Baa3 or BBB- respectively.

## CREDIT STRUCTURE

The Covered Bonds will be direct, unsecured, unconditional obligations of the Issuer. The LLP has no obligation to pay the Guaranteed Amounts under the Covered Bond Guarantee until service of a Notice to Pay on the LLP following service by the Bond Trustee of an Issuer Acceleration Notice or, if earlier, following the occurrence of an LLP Event of Default and service by the Bond Trustee of an LLP Acceleration Notice. The Issuer will not be relying on payments by the LLP in respect of the Term Advances or receipt of Revenue Receipts or Principal Receipts from the Portfolio in order to pay interest or repay principal under the Covered Bonds.

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

- the Covered Bond Guarantee provides credit support to the Issuer;
- the Pre-Maturity Liquidity Test is intended to provide liquidity to the LLP in respect of principal due on the Final Maturity Date of Hard Bullet Covered Bonds;
- the Asset Coverage Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds outstanding at all times;
- the Amortisation Test is intended to test the asset coverage of the LLP's assets in respect of the Covered Bonds following service of a Notice to Pay on the LLP;
- if the Issuer's short-term ratings fall below A-1+ by S&P or P-1 by Moody's, Available Revenue Receipts will be trapped in the Reserve Fund; and
- under the terms of the Guaranteed Investment Contract, the GIC Provider has agreed to pay a variable rate of interest on all amounts held by the LLP in the GIC Account at a rate of LIBOR for one-month Sterling deposits less 0.10 per cent. or such other amount as the LLP and the GIC Provider may agree from time to time.

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

### Covered Bond Guarantee

The Covered Bond Guarantee provided by the LLP under the Trust Deed guarantees payment of Guaranteed Amounts when the same become Due for Payment in respect of all Covered Bonds issued under the Programme. The Covered Bond Guarantee will not guarantee any amount becoming payable for any other reason, including any payment obligation of the Issuer being accelerated pursuant to Condition 9 (*Events of Default, Acceleration and Enforcement*) following the service of a Notice to Pay. In this circumstance (and until an LLP Event of Default occurs and an LLP Acceleration Notice is served), the LLP's obligations will only be to pay the Guaranteed Amounts as they fall Due for Payment. However, should any payments made by the LLP under the Covered Bond Guarantee be subject to any withholding or deduction on account of taxes, duties, or other charges of whatever nature imposed or levied by or on behalf of the United Kingdom or by any authority therein or thereof having the power to tax, the LLP will not be obliged to pay any additional amount as a consequence.

See further *Summary of the Principal Documents – Trust Deed* as regards the terms of the Covered Bond Guarantee. See further *Cashflows – Guarantee Priority of Payments* as regards the payment of amounts payable by the LLP to Covered Bondholders and other Secured Creditors following service of a Notice to Pay.

### Pre-Maturity Liquidity Test

Certain Series of Covered Bonds are scheduled to be redeemed in full on the Final Maturity Date therefor without any provision for scheduled redemption other than on the Final Maturity Date (the **Hard Bullet Covered Bonds**). The applicable Final Terms will identify whether any Series of Covered Bonds is a Series of Hard Bullet Covered Bonds. The Pre-Maturity Liquidity Test is intended to provide liquidity for the Hard Bullet Covered Bonds when the Issuer's credit ratings fall to a certain level. On each Pre-Maturity Liquidity Test Date prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, the LLP or the Cash Manager on its behalf will determine whether the Issuer is in compliance with the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds, and if it is not, it shall immediately notify the Members, the Seller and the Security Trustee thereof and if the Cash Manager makes such determination on the LLP's behalf, the Cash Manager shall immediately notify the LLP.

The Issuer will fail and be in breach of the **Pre-Maturity Liquidity Test** on a Pre-Maturity Liquidity Test Date if:

- (a) the Issuer's short-term credit rating by S&P is lower than A-1 and the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 6 months from the relevant Pre-Maturity Liquidity Test Date; or
- (b) the Issuer's (i) long-term credit rating by Moody's is lower than A2; and (ii) short-term credit rating by Moody's is lower than P-1 and in either case the Final Maturity Date of the Series of Hard Bullet Covered Bonds occurs within 12 months from the relevant Pre-Maturity Liquidity Test Date.

Following a breach of the Pre-Maturity Liquidity Test in respect of a Series of Covered Bonds, the LLP shall offer to sell Selected Loans and their Related Security to Purchasers, subject to:

- (a) any Cash Capital Contribution made by the Members (other than the Liquidation Member) from time to time; and
- (b) any right of pre-emption in favour of the Seller pursuant to the terms of the Mortgage Sale Agreement,

provided that an Issuer Event of Default shall occur if the Pre-Maturity Liquidity Test in respect of any Series of Hard Bullet Covered Bonds is breached during the Pre-Maturity Liquidity Test Breach Period, and the relevant parties have not taken the required actions (as described above) following that breach within the earlier to occur of (i) 10 Business Days from the date that the Seller and the LLP are notified of the breach of the Pre-Maturity Liquidity Test and (ii) the Final Maturity Date of that Series of Hard Bullet Covered Bonds, such that by the end of such period, there shall be an amount equal to the Sterling Equivalent of the Required Redemption Amount of that Series of Hard Bullet Covered Bonds standing to the credit of the Pre-Maturity Liquidity Ledger (after taking into account the Sterling Equivalent of the Required Redemption Amount of all other Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds). The method for selling Selected Loans and their Related Security is described in *Summary of the Principal Documents - The LLP Deed - Sale of Selected Loans and their Related Security if the Pre-Maturity Liquidity Test is breached* above. The proceeds of sale of Selected Loans and their Related Security and/or the proceeds of any Cash Capital Contribution as described above, will be recorded to the Pre-Maturity Liquidity Ledger or the relevant Capital Account Ledger(s), respectively, on the GIC Account.

In certain circumstances, Available Revenue Receipts will also be available to repay a Hard Bullet Covered Bond, as described in *Cashflows - Pre-Acceleration Revenue Priority of Payments* below.

Failure by the Issuer and/or the LLP to pay the full amount due in respect of a Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof will constitute an Issuer Event of Default. Following service of a Notice to Pay on the LLP, the LLP shall apply funds standing to the Pre-Maturity Liquidity Ledger to repay the relevant Series of Hard Bullet Covered Bonds. If the Issuer fully repays the relevant Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof, cash standing to the credit of the Pre-Maturity Liquidity Ledger on the GIC Account shall be applied by the LLP in accordance with the Pre-Acceleration Principal Priority of Payments, unless:

- (a) the Issuer is failing the Pre-Maturity Liquidity Test in respect of any other Series of Hard Bullet Covered Bonds, in which case the cash will remain on the Pre-Maturity Liquidity Ledger in order to provide liquidity for that other Series of Hard Bullet Covered Bonds; or
- (b) the Issuer is not failing the Pre-Maturity Liquidity Test, but the LLP Management Board elects to retain the cash on the Pre-Maturity Liquidity Ledger in order to provide liquidity for any future Series of Hard Bullet Covered Bonds.

Amounts standing to the credit of the Pre-Maturity Liquidity Ledger following the repayment of the Hard Bullet Covered Bonds as described above may, except where the LLP Management Board has elected or is required to retain such amounts on the Pre-Maturity Liquidity Ledger, also be used to repay the corresponding Term Advance and distribute any excess Available Principal Receipts back to the Members on dates other than LLP Payment Dates, subject to the LLP making provision for higher ranking items in the Pre-Acceleration Principal Priority of Payments.

### **Asset Coverage Test**

The Asset Coverage Test is intended to ensure that the LLP can meet its obligations under the Covered Bond Guarantee and senior ranking expenses which will include costs relating to the maintenance, administration and winding-up of the Asset Pool whilst the Covered Bonds are outstanding. Under the LLP Deed, the LLP and its

Members (other than the Liquidation Member) must ensure that on each Calculation Date the Adjusted Aggregate Loan Amount will be in an amount equal to or in excess of the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds each Member of the LLP (other than the Liquidation Member) will use all reasonable endeavours to sell sufficient further Loans and their Related Security to the LLP in accordance with the Mortgage Sale Agreement (see *Summary of the Principal Documents – Mortgage Sale Agreement – Sale by the Seller of the Loans and Related Security*), transfer in Substitution Assets or provide Cash Capital Contributions in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Calculation Date. If the Adjusted Aggregate Loan Amount is not equal to, or greater than, the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on the next following Calculation Date, the Asset Coverage Test will be breached and the Bond Trustee will serve an Asset Coverage Test Breach Notice on the LLP. The Asset Coverage Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of (i) other assets owned by the LLP, (ii) set-off on a Borrower's current or deposit accounts held with the Seller, (iii) set-off associated with drawings made by Borrowers under Flexible Loans, (iv) the potential carry cost if the Loans and their Related Security were sold and cash proceeds thereof were invested in the GIC Account until the maturity of the relevant Covered Bonds and (v) failure by the Seller, in accordance with the Mortgage Sale Agreement, to repurchase Defaulted Loans or Loans that do not materially comply with the Representations and Warranties on the relevant Sale Date. See further *Summary of the Principal Documents – LLP Deed – Asset Coverage Test*, above.

An Asset Coverage Test Breach Notice will be revoked if, on any Calculation Date falling on or prior to the third Calculation Date following the service of the Asset Coverage Test Breach Notice, the Asset Coverage Test is satisfied and neither a Notice to Pay nor an LLP Acceleration Notice has been served.

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

### **Amortisation Test**

The Amortisation Test is intended to ensure that if, following service of a Notice to Pay on the LLP (but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security), the assets of the LLP available to meet its obligations under the Covered Bond Guarantee fall to a level where Covered Bondholders may not be repaid, an LLP Event of Default will occur and all amounts owing under the Covered Bonds may be accelerated. Under the LLP Deed, the LLP and its Members (other than the Liquidation Member) must ensure that, on each Calculation Date following service of a Notice to Pay on the LLP, the Amortisation Test Aggregate Loan Amount will be in an amount at least equal to the Sterling Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date. The Amortisation Test is a formula which adjusts the Current Balance of each Loan in the Portfolio and has further adjustments to take account of Loans in arrears, other assets held by the LLP and the potential carry cost if the Loans and their Related Security were sold and cash proceeds thereof were invested in the GIC Account until the maturity of the relevant Covered Bonds. See further *Summary of the Principal Documents – LLP Deed – Amortisation Test* above.

### **Reserve Fund**

If at any time prior to the occurrence of an Issuer Event of Default, the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations cease to be rated A-1+ by S&P or P-1 by Moody's, the LLP will be required to credit Available Revenue Receipts to the Reserve Fund up to an amount equal to the Reserve Fund Required Amount. The LLP will not be required to maintain the Reserve Fund following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice.

The Reserve Fund Required Amount will be funded from Available Revenue Receipts after the LLP has paid all of its obligations in respect of items ranking higher than the Reserve Ledger in the Pre-Acceleration Revenue Priority of Payments on each LLP Payment Date.

A Reserve Ledger will be maintained by the Cash Manager to record the balance from time to time of the Reserve Fund. Following the occurrence of an Issuer Event of Default, service of an Issuer Acceleration Notice

and service of a Notice to Pay on the LLP, amounts standing to the credit of the Reserve Fund will be added to certain other income of the LLP in calculating Available Revenue Receipts.

The Seller may also direct the LLP to credit any Cash Capital Contributions it makes to the LLP to the Reserve Ledger. The balance on the Reserve Ledger in excess of the Reserve Fund Required Amount will form part of Available Revenue Receipts and be applied accordingly.

## CASHFLOWS

As described above under *Credit Structure*, until a Notice to Pay or an LLP Acceleration Notice is served on the LLP, the Covered Bonds will be obligations of the Issuer only. The Issuer is liable to make payments when due on the Covered Bonds, whether or not it has received any corresponding payment (whether under a corresponding Term Advance or otherwise) from the LLP.

This section summarises the Priorities of Payments of the LLP, as to the allocation and distribution of amounts standing to the credit of the LLP Accounts and their order of priority:

- (a) prior to service on the LLP of an Asset Coverage Test Breach Notice, a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (b) for so long as an Asset Coverage Test Breach Notice remains outstanding, but prior to service of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security;
- (c) following service of a Notice to Pay, but prior to service of an LLP Acceleration Notice and/or the realisation of the Security and/or the commencement of winding-up proceedings in respect of the LLP; and
- (d) following service of an LLP Acceleration Notice, the realisation of the Security and/or the commencement of winding-up proceedings against the LLP.

### **Allocation and distribution of Available Revenue Receipts whilst no Asset Coverage Test Breach Notice is outstanding and prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security and whilst amounts are outstanding in respect of the Covered Bonds, Available Revenue Receipts shall be applied as described below.

On the Calculation Date immediately preceding each LLP Payment Date, the LLP, or the Cash Manager on its behalf, shall calculate:

- (a) the amount of Available Revenue Receipts available for distribution on the immediately following LLP Payment Date;
- (b) the Reserve Fund Required Amount; and
- (c) where the Pre-Maturity Liquidity Test has been breached in respect of a Series of Hard Bullet Covered Bonds, on each Calculation Date falling in the Pre-Maturity Liquidity Test Breach Period, whether or not the amount standing to the credit of the Pre-Maturity Liquidity Ledger at such date is less than the Sterling Equivalent of the Required Redemption Amount for the relevant Series of Hard Bullet Covered Bonds at such date (after deducting from the balance standing to the credit of the Pre-Maturity Liquidity Ledger such amounts as are then required to repay any Series of Hard Bullet Covered Bonds which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds).

### *Pre-Acceleration Revenue Priority of Payments*

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer Available Revenue Receipts from the Revenue Ledger and the Reserve Ledger, as applicable, to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments described below (taking into account any Available Revenue Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Revenue Receipts standing to the credit of the GIC Account.

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security and whilst amounts are outstanding in respect of Covered Bonds, Available Revenue Receipts as calculated on the immediately preceding Calculation Date shall be applied by the LLP (or the Cash Manager on its behalf) on each LLP Payment Date (except for amounts due to the Bond Trustee and the Security Trustee or to other third parties by the LLP or the Issuer under paragraphs (a) and (b) or Third Party

Amounts, which shall be paid when due) in making the following payments and provisions (the **Pre-Acceleration Revenue Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts then due and payable or to become due and payable to the Bond Trustee in the immediately succeeding LLP Payment Period (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable VAT (or other similar taxes) thereto to the extent provided therein; and
  - (ii) all amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Security Trustee (including remuneration payable to it) under the provisions of the Deed of Charge together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for Taxes and stamp duties; and
  - (ii) any remuneration and other amounts (including costs and expenses) due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the terms of the Agency Agreement, together with applicable VAT (or other similar taxes) thereon to the extent provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding LLP Payment Period, together with applicable amounts in respect of VAT (or other similar Taxes) thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding LLP Payment Period, together with applicable VAT (or other similar Taxes) thereon as provided therein;
  - (iii) amounts (if any) then due and payable in the immediately succeeding LLP Payment Period to the Account Bank and GIC Provider (including costs) pursuant to the terms of the Bank Account Agreement or to the GIC Provider pursuant to the Guaranteed Investment Contract together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iv) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (v) to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees); and
  - (vi) amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in Clause (i) below), together with applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;

- (d) *fourth*, in or towards payment on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of any amount due or to become due and payable to the Interest Rate Swap Provider (including any termination payment due and payable by the LLP under the Interest Rate Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premium received from the relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;
- (e) *fifth*, in or towards payment *pro rata* or *pari passu* on the LLP Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and any amounts received or receivable from the Interest Rate Swap Provider under the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine), of:
  - (i) any amounts then due or to become due and payable to the relevant Covered Bond Swap Providers (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) any amounts due or to become due and payable in the next LLP Payment Period (excluding principal amounts), *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (f) *sixth*, if the LLP is required to make a deposit to the Pre-Maturity Liquidity Ledger in accordance with the LLP Deed, towards a credit to the GIC Account with a corresponding credit to that Ledger of an amount up to but not exceeding the difference between:
  - (i) the Sterling Equivalent of the Required Redemption Amount as calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Sterling Equivalent of the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (g) *seventh*, if a Servicer Termination Event has occurred, all remaining Available Revenue Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Termination Event is either remedied or waived by the Security Trustee or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (h) *eighth*, in or towards a credit to the Reserve Ledger on the GIC Account of an amount up to but not exceeding the amount by which the Reserve Fund Required Amount exceeds the existing balance on the Reserve Ledger as calculated on the immediately preceding Calculation Date;
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (j) *tenth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed and certain costs, expenses and indemnity amounts due to the Asset Monitor pursuant to the Asset Monitor Agreement;
- (k) *eleventh*, to pay all remaining Available Revenue Receipts except for an amount equal to the profit to be paid to the Members in accordance with item (l) below to the Seller in or towards payment of Deferred Consideration due to the Seller for the transfer of the Loans and their Related Security to the LLP; and

- (l) *twelfth*, towards payment *pro rata* and *pari passu* to the Members of a certain sum (specified in the LLP Deed) by way of fees and as their profit for their respective interests as Members in the LLP.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to each relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement or, as the case may be, to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and remains outstanding in which case the provisions under *Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and Prior to Service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of Winding-Up Proceedings against the LLP and/or realisation of the Security* shall apply.

Any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date, to make payments (other than principal) due and payable to the Issuer in respect of each relevant Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine unless an Asset Coverage Test Breach Notice has been served and remains outstanding.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement and any amounts (other than in respect of principal and other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on or after the LLP Payment Date but prior to the next following LLP Payment Date which are not put towards a payment or provision in accordance with item (e)(ii) above or the preceding two paragraphs will be credited to the Revenue Ledger on the GIC Account and applied as Available Revenue Receipts on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such amounts shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

For the avoidance of doubt, an Asset Coverage Test Breach Notice will be "outstanding" from the time it is served on the LLP until the time it is revoked.

**Allocation and distribution of Available Principal Receipts whilst no Asset Coverage Test Breach Notice is outstanding and prior to the service of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, Available Principal Receipts will be applied as described below.

On each Calculation Date, the LLP (or the Cash Manager on its behalf) shall calculate the amount of Available Principal Receipts available for distribution on the immediately following LLP Payment Date.

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer funds from the GIC Account to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payment or credits described below (taking into account any Available Principal Receipts standing to the credit of the Transaction Account) and (b) the amount of Available Principal Receipts standing to the credit of the GIC Account.

If an LLP Payment Date is an Interest Payment Date, then distribution of Available Principal Receipts under the Pre-Acceleration Principal Priority of Payments will be delayed until the Issuer has made Scheduled Interest and/or principal payments under the Covered Bonds on that Interest Payment Date save as provided in the LLP Deed.

### *Pre-Acceleration Principal Priority of Payments*

Provided no Asset Coverage Test Breach Notice is outstanding, prior to the service on the LLP of a Notice to Pay or an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Principal Receipts (other than those Cash Capital Contributions made from time to time by the Seller in its capacity as Member which are to be applied as Revenue Receipts) as calculated on the immediately preceding Calculation Date will be applied by or on behalf of the LLP on each LLP Payment Date in making the following payments or provisions or credits in the following order of priority (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full):

- (a) *first*, if the Pre-Maturity Liquidity Test is breached in respect of a Series of Hard Bullet Covered Bonds, to credit all Principal Receipts to the Pre-Maturity Liquidity Ledger in an amount up to but not exceeding the difference between:
  - (i) the Sterling Equivalent of the Required Redemption Amount calculated on the immediately preceding Calculation Date for the relevant Series of Hard Bullet Covered Bonds; and
  - (ii) any amounts standing to the credit of the Pre-Maturity Liquidity Ledger on the immediately preceding Calculation Date after deducting from that Ledger the Sterling Equivalent of the Required Redemption Amounts of all other Series of Hard Bullet Covered Bonds as calculated on that Calculation Date which mature prior to or on the same date as the relevant Series of Hard Bullet Covered Bonds;
- (b) *second*, to acquire New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to acquire Substitution Assets in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP will be in compliance with the Asset Coverage Test on the next Calculation Date;
- (c) *third*, to deposit the remaining Available Principal Receipts in the GIC Account (with a corresponding credit to the Principal Ledger) in an amount sufficient to ensure that, taking into account the other resources available to the LLP, the LLP will be in compliance with the Asset Coverage Test on the next Calculation Date;
- (d) *fourth*, in or towards repayment *pro rata* or *pari passu* on the LLP Payment Date or to provide for repayment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine (and in the case of any such payment or provision, after taking into account any provisions previously made and, if applicable, any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or such date in the future as the Cash Manager may reasonably determine):
  - (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Providers *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap but, for the avoidance of doubt, excluding any Excluded Swap Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) any amounts (in respect of principal) due or to become due and payable, *pro rata* and *pari passu* in respect of each relevant Term Advance, to the Issuer pursuant to the terms of the Intercompany Loan Agreement;
- (e) *fifth*, to acquire (or to provide for the acquisition of) New Loans and their Related Security offered to the LLP by the Seller in accordance with the terms of the Mortgage Sale Agreement and/or to acquire Substitution Assets and/or credit the GIC Account as the Cash Manager may determine; and
- (f) *sixth*, subject to complying with the Asset Coverage Test, to make a Capital Distribution *pro rata* and *pari passu* to each Member (other than the Liquidation Member) in proportion to each such Member's Capital Contribution as calculated on the immediately preceding Calculation Date (or, if Lloyds TSB Bank plc is not then a Member, towards repayment of the Issuer Subordinated Loan) in accordance with the LLP Deed.

Any amounts in respect of principal received by the LLP under a Covered Bond Swap on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payments made on any preceding LLP Payment Date (provided that all principal amounts outstanding under the related Series of Covered Bonds which have fallen due for repayment on such date have been repaid

in full by the Issuer), to make payments in respect of principal due and payable to the Issuer in respect of the corresponding Term Advance under the Intercompany Loan Agreement or otherwise to make provision for such payments on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, unless an Asset Coverage Test Breach Notice has been served on the LLP and remains outstanding. Any amounts of principal (other than Swap Collateral Excluded Amounts) received by the LLP under the Covered Bond Swap Agreements on the LLP Payment Date or any date prior to the next succeeding LLP Payment Date which are not put towards a payment or provision in accordance with paragraph (c) above or the preceding sentence will be credited to the Principal Ledger on the relevant LLP Account and applied as Available Principal Receipts on the next succeeding LLP Payment Date.

Any Cash Capital Contributions made by Lloyds TSB Bank plc (in its capacity as Member) other than those deemed to be Revenue Receipts or Principal Receipts from time to time shall, unless an Asset Coverage Test Breach Notice has been served and remains outstanding, be distributed to Lloyds TSB Bank plc as a Capital Distribution.

**Allocation and Distribution of Available Revenue Receipts and Available Principal Receipts whilst an Asset Coverage Test Breach Notice is outstanding and prior to service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security**

For so long as an Asset Coverage Test Breach Notice is outstanding, but prior to the service on the LLP of a Notice to Pay, an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security, all Available Revenue Receipts and Available Principal Receipts will continue to be applied in accordance with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, respectively, save that, whilst any Covered Bonds remain outstanding, no monies will be applied under paragraph (e)(ii) (to the extent only that such amounts are payable to the Members), (j), (k) or (l) of the Pre-Acceleration Revenue Priority of Payments or paragraphs (b), (d)(ii), (e) or (f) of the Pre-Acceleration Principal Priority of Payments.

**Allocation and distribution of Available Revenue Receipts and Available Principal Receipts following service of a Notice to Pay**

At any time after service of a Notice to Pay, but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP, and/or realisation of the Security, and whilst amounts are outstanding in respect of Covered Bonds, all Available Revenue Receipts and Available Principal Receipts standing to the credit of the LLP Accounts will be applied as described below under *Guarantee Priority of Payments*.

On each LLP Payment Date, the LLP (or the Cash Manager on its behalf) will transfer Available Revenue Receipts and Available Principal Receipts from the Revenue Ledger, the Reserve Ledger, the Principal Ledger or the Capital Account Ledger, as the case may be, to the Transaction Account, in an amount equal to the lower of (a) the amount required to make the payments set out in the Guarantee Priority of Payments and (b) the amount of all Available Revenue Receipts and Available Principal Receipts standing to the credit of such ledgers on the LLP Accounts.

The LLP (or the Cash Manager on its behalf) shall create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraph (e) and (f) of the *Guarantee Priority of Payments* below, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee and amounts due under the Covered Bond Swap in respect of the relevant Series of Covered Bonds on the scheduled payment dates therefor.

*Guarantee Priority of Payments*

As set out in the Cash Management Agreement, if a Notice to Pay is served on the LLP in connection with the Pre-Maturity Liquidity Test (as set out in the LLP Deed), the LLP shall on the relevant Final Maturity Date apply all moneys standing to the credit of the Pre-Maturity Liquidity Ledger (and transferred to the Transaction Account on the relevant LLP Payment Date) to repay the relevant Series of Hard Bullet Covered Bonds in accordance with the LLP Deed (as described in *Credit Structure — Pre Maturity Liquidity*). Subject thereto, on each LLP Payment Date after the service on the LLP of a Notice to Pay but prior to service on the LLP of an LLP Acceleration Notice and/or the commencement of winding-up proceedings in respect of the LLP and/or realisation of the Security, the LLP (or the Cash Manager on its behalf) will apply Available Revenue Receipts and Available Principal Receipts as calculated on the immediately preceding Calculation Date to make the

following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Bond Trustee (including remuneration payable to it) under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein; and
  - (ii) all amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Security Trustee (including remuneration payable to it) under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration and other amounts (including costs and expenses) then due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Agents pursuant to the Agency Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein; and
  - (ii) any amounts then due and payable by the LLP to third parties and incurred without breach by the LLP of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in the relevant Priorities of Payments) and to provide for any such amounts expected to become due and payable by the LLP in the immediately succeeding LLP Payment Period and to pay or discharge any liability of the LLP for taxes;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Servicer pursuant to the terms of the Servicing Agreement in the immediately succeeding LLP Payment Period together with applicable amounts in respect of VAT (or other similar Taxes) thereon to the extent provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable or to become due and payable to the Cash Manager pursuant to the terms of the Cash Management Agreement in the immediately succeeding LLP Payment Period together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iii) amounts (if any) due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Account Bank and the GIC Provider (including any costs) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract, together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iv) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Corporate Services Provider pursuant to the Corporate Services Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (v) to the extent that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations amounts (if any) due and payable to the FSA in respect of fees owed to the FSA under the RCB Regulations (other than the initial registration fees) together with applicable VAT (or other similar taxes) thereon; and
  - (vi) amounts due and payable or to become due and payable in the immediately succeeding LLP Payment Period to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement (other than the amounts referred to in paragraph (k) below), together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
- (d) *fourth*, in or towards payment of any amount due to the Interest Rate Swap Provider (including any termination payment due or to become due and payable by the LLP under the Interest Rate Swap

Agreement, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Interest Rate Swap Provider) pursuant to the terms of the Interest Rate Swap Agreement;

- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) the amounts due or to become due and payable in the immediately succeeding LLP Payment Period to the relevant Covered Bond Swap Provider (other than in respect of principal) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreements, but excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Covered Bond Swap Provider) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Interest that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any such payment or provision, after taking into account any amounts received or receivable from the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement and, if applicable, any amounts (other than principal) received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period provided that if the amount available for distribution under this paragraph (e) (excluding any amounts received or to be received from the relevant Covered Bond Swap Providers) would be insufficient to pay the Sterling Equivalent of the Scheduled Interest that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Covered Bond Swap under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Series Covered Bonds in respect of which such payment is to be made;

- (f) *sixth*, to pay or provide for *pro rata* and *pari passu* according to the respective amounts thereof, of:
- (i) the amounts (in respect of principal) due or to become due and payable to the relevant Covered Bond Swap Provider (or to become due and payable in the immediately succeeding LLP Payment Period) *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but for the avoidance of doubt excluding any Excluded Swap Termination Amount) (except to the extent that such amounts have been paid out of any premiums received from the relevant replacement Swap Providers) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
  - (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* Scheduled Principal that is Due for Payment (or will become Due for Payment in the immediately succeeding LLP Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds,

but, in the case of any payment or provision, after taking into account any principal amounts received or receivable from a Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (f) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Scheduled Principal that is or will be Due for Payment in respect of each Series of Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement in respect of each relevant Series of Covered Bonds under sub-paragraph (i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (g) *seventh*, in respect of any Series of Covered Bonds to which an Extended Due for Payment Date applies and whose Final Redemption Amount was not paid in full by the Extension Determination Date (the **Extended Covered Bonds**) and any relevant Covered Bonds Swap in respect thereof, on a *pro rata* and *pari passu* basis according to the respective amounts thereof:

- (i) the amounts (in respect of principal) due and payable (or to become due and payable in the immediately succeeding LLP Payment Period) to each relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (but for the avoidance of doubt excluding any Excluded Termination Amount) pursuant to the terms of the relevant Covered Bond Swap Agreement; and
- (ii) to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* the Final Redemption Amount or the relevant proportion thereof under the relevant Covered Bond Guarantee in respect of each relevant Series of Extended Covered Bonds,

but, in the case of any such payment, after taking into account any amounts (in respect of principal) received or receivable from the relevant Covered Bond Swap Provider in respect of the relevant Covered Bond Swap corresponding to the Extended Covered Bonds on the LLP Payment Date or in the immediately succeeding LLP Payment Period, provided that if the amount available for distribution under this paragraph (g) (excluding any amounts received or to be received from the relevant Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the Final Redemption Amount in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (ii) above, the shortfall shall be divided amongst all such Series of Extended Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider under each relevant Covered Bond Swap Agreement in respect of each relevant Series of Extended Covered Bonds under sub-paragraph (g)(i) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (h) *eighth*, to deposit the remaining moneys in the GIC Account for application on the next following LLP Payment Date in accordance with the priority of payments described in paragraphs (a) to (g) (inclusive) above, until the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (i) *ninth*, in or towards payment *pro rata* and *pari passu* in accordance with the respective amounts thereof of any Excluded Swap Termination Amounts due and payable by the LLP to each Covered Bond Swap Provider under the relevant Covered Bond Swap Agreement and to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (j) *tenth*, after the Covered Bonds have been fully repaid or provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds) any remaining monies will be applied in and towards repayment in full of amounts outstanding under the Intercompany Loan Agreement;
- (k) *eleventh*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of any indemnity amount due to the Members pursuant to the LLP Deed (and, if Lloyds TSB Bank plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) and certain costs, expenses and indemnity amounts due by the LLP to the Asset Monitor pursuant to the Asset Monitor Agreement; and
- (l) *twelfth*, thereafter any remaining moneys will be applied in accordance with Clause 21 of the LLP Deed.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under the Interest Rate Swap Agreement after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments (other than in respect of principal) due and payable *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap to the relevant Covered Bond Swap Provider under the relevant Covered Bond Swap Agreements or, as the case may be, to the Issuer in respect of Scheduled Interest that is Due for Payment (or will become Due for Payment) under the Covered Bond Guarantee in respect of each relevant Series of Covered Bonds.

Any amounts (other than Swap Collateral Excluded Amounts) received by the LLP under a Covered Bond Swap Agreement (whether or not in respect of principal) on or after the LLP Payment Date but prior to the next following LLP Payment Date will be applied, together with any provision for such payment made on any preceding LLP Payment Date, to make payments of interest or principal, as the case may be, in respect of the relevant Series of Covered Bonds under the Covered Bond Guarantee.

Any amounts (other than Swap Collateral Excluded Amounts) received under the Interest Rate Swap Agreement or any Covered Bond Swap Agreement on or after the LLP Payment Date but prior to the next following LLP

Payment Date which are not put towards a payment or provision in accordance with paragraph (e), (f) or (g) above or the preceding two paragraphs will be credited to the Revenue Ledger or the Principal Ledger (as appropriate) on the GIC Account (as appropriate) and applied as Available Revenue Receipts or Available Principal Receipts, as the case may be, on the next succeeding LLP Payment Date.

If any Swap Collateral Available Amounts are received by the LLP on an LLP Payment Date, such monies shall be applied by the LLP or by the Cash Manager on its behalf on that LLP Payment Date in the same manner as it would have applied the receipts which such Swap Collateral Available Amounts replace.

**Termination payments received in respect of Swaps, premiums received in respect of replacement Swaps and Tax Credits received in respect of Swaps**

If the LLP receives any termination payment from a Swap Provider in respect of a Swap, such termination payment will first be used (prior to the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice and/or the commencement of winding-up proceedings against the LLP and/or realisation of the Security) to pay a replacement Swap Provider to enter into a replacement Swap with the LLP, unless a replacement Swap has already been entered into on behalf of the LLP. If the LLP receives any premium from a replacement Swap Provider in respect of a replacement Swap, such premium will first be used to make any termination payment due and payable by the LLP with respect to the previous Swap, unless such termination payment has already been made on behalf of the LLP.

**Application of moneys received by the Security Trustee following service of an LLP Acceleration Notice and enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP**

Under the terms of the Deed of Charge, all moneys received or recovered by the Security Trustee or any Receiver (other than any Tax Credit (including, for the avoidance of doubt, any amount received by the LLP from a Member in respect of Tax Credits), Third Party Amount, Swap Provider Tax Payment or Swap Collateral Excluded Amount) following the enforcement or realisation of the Security and/or the commencement of winding-up proceedings against the LLP, shall be held on trust to be applied (save to the extent required otherwise by law), in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) all amounts due and payable or to become due and payable to:
    - (A) the Bond Trustee under the provisions of the Trust Deed together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein; and
    - (B) the Security Trustee and any Receiver appointed by the Security Trustee under the provisions of the Deed of Charge together with interest and applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
  - (ii) any remuneration and other amounts (including costs and expenses) then due and payable to the Agents under or pursuant to the Agency Agreement together with applicable VAT (or other similar Taxes) thereon to the extent provided therein;
  - (iii) amounts in respect of:
    - (A) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding LLP Payment Period under the provisions of the Servicing Agreement, together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
    - (B) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding LLP Payment Period under the provisions of the Cash Management Agreement, together with applicable amounts in respect of VAT (or other

similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;

- (C) amounts due to the Account Bank and the GIC Provider (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement and the Guaranteed Investment Contract, together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein; and
- (D) amounts (including costs and expenses) due to the Corporate Services Provider pursuant to the terms of the Corporate Services Agreement together with applicable amounts in respect of VAT (or other similar Taxes) chargeable on the supply in respect of which the payment is made to the extent provided therein;
- (iv) any amounts due and payable to the Interest Rate Swap Provider (including any termination payment, but excluding any Excluded Swap Termination Amount) pursuant to the terms of the Interest Rate Swap Agreement;
- (v) all amounts due and payable:
  - (A) to the relevant Covered Bond Swap Provider *pro rata* and *pari passu* in respect of each relevant Covered Bond Swap (including any termination payment due and payable by the LLP under the relevant Covered Bond Swap Agreement, but excluding any Excluded Swap Termination Amount) in accordance with the terms of the relevant Covered Bond Swap Agreement; and
  - (B) the amounts due and payable under the Covered Bond Guarantee, to the Bond Trustee or (if so directed by the Bond Trustee) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds,

provided that if the amount available for distribution under this paragraph (v) (excluding any amounts received from any Covered Bond Swap Provider) would be insufficient to pay the Sterling Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds under sub-paragraph (B) above, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis and the amount payable by the LLP to the relevant Covered Bond Swap Provider in respect of each relevant Series of Covered Bond Swap under sub-paragraph (A) above shall be reduced by the amount of the shortfall applicable to the Covered Bonds in respect of which such payment is to be made;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof, of any Excluded Swap Termination Amounts due and payable by the LLP under the Covered Bond Swap Agreements and the Interest Rate Swap Agreement;
- (c) *third*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (d) *fourth*, in or towards payment of any indemnity amount due to the Members pursuant to the LLP Deed; and
- (e) *fifth*, in or towards payment to the Members (and, if Lloyds TSB Bank plc is not then a Member of the LLP, towards repayment of the Issuer Subordinated Loan) pursuant to the LLP Deed.

In the event that the LLP or a Member of the LLP receives any Tax Credits in respect of a Swap Agreement following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, payments in respect of such Tax Credits will be used, to the extent provided for in the relevant Swap Agreement, to reimburse the relevant Swap Provider for any gross-up in respect of any withholding or deduction made under the relevant Swap Agreement. Following the occurrence of an LLP Event of Default and service of an LLP Acceleration Notice, any Swap Collateral Excluded Amounts in respect of a Swap Agreement will be returned to the relevant Swap Provider subject to the terms of the relevant Swap Agreement, and any Third Party Amounts will be returned to the Seller.

If the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, the above Post-Enforcement Priority of Payments is subject to the provisions of Regulations 28 and 29 of the RCB Regulations. In

particular, costs properly incurred by a receiver, liquidator, provisional liquidator or manager of the LLP in relation to:

- (i) persons providing services for the benefit of Covered Bondholders (which is likely to include the persons listed in paragraph (a) above (excluding the Swap Providers));
- (ii) the Swap Providers in respect of amounts due to them under paragraph (a) above; and
- (iii) any other persons providing a loan to the LLP to enable it to meet the claims of Covered Bondholders or the costs of the people described in (i) and (ii) above (e.g. liquidity loans),

shall be expenses which shall be payable out of the proceeds of realisation of the Security (in the case of a receivership) or the assets of the LLP (in the case of an administration, winding-up or provisional liquidation) and shall rank equally among themselves in priority to all other expenses (including the claims of Covered Bondholders). See further *Risk Factors – Expenses of insolvency officeholders*.

## THE PORTFOLIO

The Initial Portfolio and each New Portfolio acquired by the LLP (the **Portfolio**) consist of Loans and their Related Security sold by the Seller to the LLP from time to time, in accordance with the terms of the Mortgage Sale Agreement, as more fully described under *Summary of the Principal Documents – Mortgage Sale Agreement*.

For the purposes hereof:

**Initial Portfolio** means the portfolio of Loans and their Related Security, particulars of which are set out in the Mortgage Sale Agreement (other than any Loan and its Related Security redeemed in full on or before the First Sale Date), and all rights, title, interest and benefit of the Seller in and to:

- (a) all payments of principal and interest and other sums due or to become due in respect of such Loans and Related Security including, without limitation, the right to demand, sue for, recover and give receipts for all principal monies, interest and costs and the right to sue on all covenants and undertakings made or expressed to be made in favour of the Seller under the applicable Mortgage Conditions;
- (b) subject where applicable to the subsisting rights of redemption of Borrowers, all Deeds of Consent, Deeds of Postponement, MH/CP Documentation, guarantees or any collateral security for the repayment of the relevant Loans;
- (c) the right to exercise all the powers of the Seller in relation thereto subject to and in accordance with the applicable Mortgage Conditions;
- (d) all the estate and interest in the relevant Properties vested in the Seller;
- (e) to the extent they are assignable, each Certificate of Title and Valuation Report (in each case where available) and any right of action of the Seller against any solicitor, licensed conveyancer, qualified conveyancer, valuer or other person in connection with any report, valuation, opinion, certificate or other statement of fact or opinion given in connection with such Loans and Related Security, or any part thereof or affecting the decision of the Seller to make or offer to make any such Loan or part thereof; and
- (f) the proceeds of all claims made by or on behalf of the Seller or to which the Seller is entitled under the Block Buildings Insurance and the Properties in Possession Cover in relation to any such Loan.

**New Portfolio** means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Sale Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Sale Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM), and all right, title, interest and benefit of the Seller in and to the rights and assets set out in paragraphs (a) to (f) above.

See also the following risk factors under *Risk Factors – Risk Factors relating to the Covered Bonds – Limited description of the Portfolio, Risk Factors relating to the LLP, including the ability of the LLP to fulfil its obligations in relation to the Covered Bond Guarantee – Maintenance of Portfolio and Changes to the Lending Criteria of the Seller since the time of Origination*.

## DESCRIPTION OF THE UK REGULATED COVERED BOND REGIME

The Regulated Covered Bonds Regulations 2008 (SI 2008/346), as amended (the **RCB Regulations**) and the corresponding implementation provisions, set out in the new RCB Sourcebook to the FSA's Handbook (the **RCB Sourcebook**), came into force in the UK on 6 March 2008 and were subsequently amended by the Regulated Covered Bonds (Amendment) Regulations (SI 2008/1714) which came into force on 22 July 2008. In summary, the RCB Regulations implement a legislative framework for UK covered bonds. The framework is intended to meet the requirements set out in Article 22(4) of Directive 85/611 EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as amended (the **UCITS Directive**). In general, covered bonds which are UCITS Directive-compliant benefit from higher prudential investment limits and may be ascribed a preferential risk weighting. Notwithstanding the intention behind the new framework, the FSA will not notify the European Commission of an issuer's inclusion in the register of issuers, regulated covered bond included in the register of regulated covered bonds and the status of the guarantees offered in respect of such bonds, until the registration process in respect of that issuer and its covered bond programme has been successfully completed. Until such notification is made covered bonds are not UCITS compliant.

The RCB Regulations and the RCB Sourcebook include various requirements related to issuers, asset pool owners, pool assets and the contractual arrangements made in respect of such assets. In this regard, issuers and owners have various initial and ongoing obligations under the RCB Regulations and the RCB Sourcebook and are responsible for ensuring they comply with them. In particular, issuers are required to (amongst other things) enter into arrangements with the owner for the maintenance and administration of the asset pool such that certain asset record-keeping obligations and asset capability and quality related requirements are met and notify the FSA of various matters (including any regulated covered bonds it issues, the assets in the asset pool, matters related to its compliance with certain regulations and any proposed material changes). Owners are required to (amongst other things) notify the FSA of various matters (including any proposed transfer of ownership of the asset pool) and, on insolvency of the issuer, make arrangements for the maintenance and administration of the asset pool (similar to the issuer obligations described above).

The FSA will perform certain supervision and enforcement related tasks in respect of the new regime, including admitting issuers and covered bonds to the relevant registers and monitoring compliance with ongoing requirements. To assist it with these tasks, the FSA has certain powers under the RCB Regulations. In particular, in certain circumstances the FSA may direct the winding-up of an owner, remove an issuer from the register of issuers and/or impose a financial penalty of such amount as it considers appropriate in respect of an issuer or owner. Moreover, as the body which regulates the financial services industry in the UK, the FSA may take certain actions in respect of issuers using its general powers under the UK regulatory regime (including restricting an issuer's ability to transfer further assets to the asset pool).

The Issuer does not currently intend to apply to the FSA for the Programme nor any Series of Covered Bonds to be admitted to the register of regulated covered bonds under the RCB Regulations although the Issuer may apply to the FSA for the Issuer to be admitted to the register of issuers under the RCB Regulations. As at the date of this Prospectus, the Issuer is not so registered or regulated. However, if and until the Issuer elects to apply for the Programme or any Series of Covered Bonds issued under the Programme to be admitted to the register of regulated covered bonds and such application is successful, irrespective of whether or not the Issuer is admitted to the register of issuers under the RCB Regulations, the requirements above will not be satisfied with regards to the Covered Bonds for so long as the Covered Bonds are not regulated covered bonds and therefore no regulatory benefit associated with the UCITS Directive and the RCB Regulations will be available to Covered Bondholders as a result of holding Covered Bonds.

See also *Risk Factors – UK regulated covered bond regime* and *– Expenses of insolvency officeholders*.

## DESCRIPTION OF LIMITED LIABILITY PARTNERSHIPS

Since 6 April 2001 it has been possible to incorporate a limited liability partnership in England, Wales and Scotland under the Limited Liability Partnerships Act 2000 (the **LLPA**). Limited liability partnerships are legal entities that provide limited liability to the members of a limited liability partnership combined with the benefits of the flexibility afforded to partnerships and the legal personality afforded to companies.

### **Corporate characteristics**

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

The provisions of the Companies Act 1985 and the Insolvency Act 1986 have been modified by the Limited Liability Partnerships Regulations 2001 so as to apply most of the insolvency and winding-up procedures for companies equally to a limited liability partnership and its members. As a distinct legal entity a limited liability partnership can grant fixed and floating security over its assets and a limited liability partnership will survive the insolvency of any of its members. An administrator or liquidator of an insolvent member would be subject to the terms of the members' agreement relating to the limited liability partnership but a liquidator of an insolvent member may not take part in the administration of the limited liability partnership or its business.

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

### **Partnership characteristics**

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

### **Taxation**

Limited liability partnerships are tax transparent except in the case of value added tax (in respect of which a limited liability partnership can register for VAT in its own name) and in certain winding-up proceedings. As such, the members of a limited liability partnership, and not the limited liability partnership itself, are taxed in relation to the business of the limited liability partnership in broadly the same way that the members of a partnership are taxed in relation to the business of that partnership.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the LLP believe to be reliable, but none of the Issuer, the LLP, the Bond Trustee nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the LLP nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-entry Systems

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds and provides asset servicing for securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerised book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct Participants or Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC's records. The ownership interest of each actual purchaser of each DTC Covered Bond (**Beneficial Owner**) is in turn to be recorded on the Direct Participants and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participants or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as may be requested by an authorised representative of DTC. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed

by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to DTC Covered Bonds unless authorised by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (**Omnibus Proxy**) to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Covered Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Principal Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participants or Indirect Participants and not of DTC or its nominee, the Principal Paying Agent or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorised representative of DTC) is the responsibility of the Issuer or the Principal Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Covered Bonds for Registered Definitive Covered Bonds, which it will distribute to its Direct Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Covered Bond, will be legended as set forth under *Subscription and Sale and Transfer and Selling Restrictions*.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Covered Bonds, will be required to withdraw its Registered Covered Bonds from DTC as described below.

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

#### **Book-entry Ownership of and Payments in respect of DTC Covered Bonds**

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests

in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

It should be noted that DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars in respect of a Registered Global Covered Bond accepted by DTC, payment will be made to the Exchange Agent and the Exchange Agent will (in accordance with express written instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account(s).

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Direct Participants or Indirect Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Direct Participants or Indirect Participants and not the responsibility of DTC, the Bond Trustee, the Security Trustee, the Agents or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Covered Bonds represented by a Registered Global Covered Bond to such persons may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such Covered Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such Covered Bonds for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such Covered Bonds may be impaired if the proposed transferee of such Covered Bonds is not eligible to hold such Covered Bonds through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under *Subscription and Sale and Transfer and Selling Restrictions*, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Tranche, transfers of Covered Bonds of such Tranche between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bond Trustee, the Security Trustee, the Issuer, the LLP, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs practice and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Covered Bonds and Coupons and may not apply to certain classes of persons such as dealers to whom special rules may apply. Any Covered Bondholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

#### *Payment of interest by the Issuer in respect of the Covered Bonds*

While the Covered Bonds are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**), payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for the purposes of section 1005 of the Act. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of FSMA) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

The Issuer, provided that it is and continues to be a bank within the meaning of section 991 of the Act, and provided that the interest on the Covered Bonds is paid in the ordinary course of its business within the meaning of section 878 of the Act, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax. Interest will not be regarded as being paid in the ordinary course of business where the borrowing relates to the capital structure of the Issuer. The borrowing will be regarded as relating to the capital structure of the Issuer if it conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the UK Financial Services Authority, whether or not the borrowing actually counts towards tier 1, 2 or 3 capital for regulatory purposes.

Interest on the Covered Bonds may also be paid without withholding or deduction on account of United Kingdom income tax where, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Covered Bonds is paid reasonably believes) either:

- (i) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or
- (ii) that the payment is made to one of the bodies or persons set out in sections 935 to 937 of the Act,

provided that HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on Covered Bonds with a maturity date of less than a year after the issue date may be paid without withholding or deduction for or on account of United Kingdom income tax provided that interest is not payable in respect of a debt which is intended to be outstanding for a year or more.

In all other cases, an amount must generally be withheld from payments of yearly interest on the Covered Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue & Customs under an applicable double taxation treaty.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest. HM Revenue & Customs also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Covered Bonds which are deeply discounted securities for the purposes of the Income Tax (Trading and other Income) Act 2005 to or receives such amounts for the benefit of an individual. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HM Revenue & Customs with the tax authorities of the jurisdictions in which the Covered Bondholder is resident for tax purposes. However, in relation to amounts payable on the redemption of such Covered Bonds, HM Revenue & Customs' published practice indicates that HM Revenue &

Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April, 2009.

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Covered Bonds (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Covered Bonds are attributable (and where that person is a company, unless that person carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Covered Bonds are attributable). There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax (for example, if the Covered Bonds lost their listing), Covered Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an applicable double taxation treaty.

Covered Bondholders should recognise that the provisions relating to additional amounts referred to in *Terms and Conditions of the Covered Bonds – Taxation* would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

#### *Payments by the LLP*

If the LLP makes any payment in respect of interest on the Covered Bonds (or any other amounts due under the Covered Bonds other than the repayment of amounts subscribed for under the Covered Bonds), such payment may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), whether or not the Covered Bonds are listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. The LLP will not be required to pay any additional amounts in the event of a payment being made net of any withholding or deduction.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual or certain limited types of entity established in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead operate a withholding system in relation to such payments. A number of non-EU countries and certain territories have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

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

The attention of Covered Bondholders is drawn to Condition 7(d) and to page 69 in *Risk Factors*.

#### **U.S. Federal Income Taxation**

**TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, COVERED BONDHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY COVERED BONDHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF**

**CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) COVERED BONDHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a Covered Bondholder that is a citizen or individual resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the Covered Bond (a **U.S. holder**). This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change possibly with retroactive effect. This summary deals only with U.S. holders that will hold Covered Bonds as capital assets, and it does not address tax considerations applicable to Covered Bondholders that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Covered Bonds as a position in a "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction or persons that have a "functional currency" other than the U.S. dollar.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Covered Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisors as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Covered Bonds.

Any special U.S. federal income tax considerations relevant to a particular issue of Covered Bonds will be provided in the applicable Final Terms. This summary addresses only Covered Bonds that will be treated as debt for U.S. federal income tax purposes.

Investors should consult their own tax advisors to determine the tax consequences to them of acquiring, owning and disposing of Covered Bonds, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

*Payments of Interest*

Payments of "qualified stated interest" (as defined below under *Original Issue Discount*) on a Covered Bond will be taxable to a U.S. holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the U.S. holder's method of tax accounting).

If such payments of interest are made with respect to a Covered Bond denominated in a currency other than U.S. dollars (a **Foreign Currency Covered Bond**), the amount of interest income realized by a U.S. holder that uses the cash method of tax accounting will be the U.S. dollar value of the Specified Currency payment based on the exchange rate in effect on the date of receipt, regardless of whether the payment in fact is converted into U.S. dollars on such date. A U.S. holder that uses the accrual method of accounting for tax purposes will accrue interest income on the Foreign Currency Covered Bond in the relevant foreign currency and translate the amount accrued into U.S. dollars based on the average exchange rate in effect during the interest accrual period (or portion thereof within the U.S. holder's taxable year), or, at the accrual-basis U.S. holder's election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). A U.S. holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the **IRS**). A U.S. holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Covered Bond if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Any such foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bond.

*Purchase, Sale and Retirement of Covered Bonds*

A U.S. holder's tax basis in a Covered Bond generally will equal the cost of such Covered Bond to such holder, increased by any amounts includible in income by the holder as original issue discount and market discount, and reduced by any amortized premium (each as described below) and any payments other than payments of qualified stated interest made on such Covered Bond. In the case of a Foreign Currency Covered Bond, the cost to a U.S. holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash-basis U.S. holder (and, if it so elects, an accrual-basis U.S. holder) will determine the U.S. dollar value of the cost of such Foreign Currency Covered Bond by translating the amount paid at the spot rate of exchange on the

settlement date of the purchase. The amount of any subsequent adjustments to a U.S. holder's tax basis in a Foreign Currency Covered Bond in respect of original issue discount, market discount and premium denominated in the Specified Currency will be determined in the manner described under *Original Issue Discount* and *Premium and Market Discount* below. The conversion of U.S. dollars to the Specified Currency and the immediate use of such currency to purchase a Foreign Currency Covered Bond generally will not result in taxable gain or loss for a U.S. holder.

Upon the sale, exchange, retirement or other disposition of a Covered Bond, a U.S. holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any accrued qualified stated interest, which will be taxable as such) and the U.S. holder's tax basis in such Covered Bond. If a U.S. holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Covered Bond, the amount realized will be the U.S. dollar value of the Specified Currency received, calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Covered Bond that is traded on an established securities market, a cash-basis U.S. holder and, if it so elects, an accrual-basis U.S. holder will determine the U.S. dollar value of the amount realized by translating such amount at the spot rate on the settlement date of the sale. This election available to accrual-basis U.S. holders in respect of the purchase and sale of Foreign Currency Covered Bonds traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Covered Bonds (as defined below) and foreign currency gain or loss, gain or loss recognized by a U.S. holder generally will be long-term capital gain or loss if the U.S. holder has held the Covered Bond for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income.

Gain or loss recognized by a U.S. holder on the sale, exchange or retirement of a Foreign Currency Covered Bond generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Foreign Currency Covered Bond. Such foreign currency gain or loss will not be treated as an adjustment to interest income received on the Foreign Currency Covered Bond.

#### *Original Issue Discount*

If the Issuer issues Covered Bonds at a discount from their stated redemption price at maturity, and such discount is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Covered Bonds and the number of full years to their maturity, the Covered Bonds will be **Original Issue Discount Covered Bonds**. The difference between the issue price and the stated redemption price at maturity of the Covered Bonds will be the **original issue discount (OID)**. The **issue price** of the covered bonds will be the first price at which a substantial amount of the Covered Bonds are sold to the public (i.e., excluding sales of Covered Bonds to underwriters, placement agents, wholesalers, or similar persons). The **stated redemption price at maturity** will include all payments under the Covered Bonds other than payments of qualified stated interest (as defined below).

U.S. holders of Original Issue Discount Covered Bonds generally will be subject to the special tax accounting rules for obligations issued with OID provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the **OID Regulations**). U.S. holders of such Covered Bonds should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each U.S. holder of an Original Issue Discount Covered Bond, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the **daily portions** of OID on the Original Issue Discount Covered Bond for all days during the taxable year that the U.S. holder owns such Covered Bond. The daily portions of OID on an Original Issue Discount Covered Bond are determined by allocating to each day in any accrual period a rateable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Covered Bond, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Covered Bond allocable to each accrual period is determined by (a) multiplying the "adjusted issue price" (as defined below) of the Original Issue Discount Covered Bond at the beginning of the accrual period by the "**yield to maturity**" of such Covered Bond (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified

stated interest (as defined below) allocable to that accrual period. The yield to maturity is the discount rate that causes the present value of all payments on the Original Issue Discount Covered Bond as of its original issue date to equal the issue price of such Covered Bond. The **adjusted issue price** of an Original Issue Discount Covered Bond at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Covered Bond in all prior accrual periods. The term **qualified stated interest** generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Covered Bond at a single fixed rate of interest or, subject to certain conditions, based on one or more interest indices.

In the case of an Original Issue Discount Covered Bond that is a Floating Rate Covered Bond, both the **yield to maturity** and **qualified stated interest** will generally be determined for these purposes as though the Original Issue Discount Covered Bond will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Covered Bond on its date of issue or, in the case of certain Floating Rate Covered Bonds, the rate that reflects the yield that is reasonably expected for the Covered Bond. (Additional rules may apply if interest on a Floating Rate Covered Bond is based on more than one interest index.) As a result of this "constant yield" method of including OID in income, the amounts includible in income by a U.S. holder in respect of an Original Issue Discount Covered Bond denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight-line basis.

A U.S. holder generally may make an irrevocable election to include in its income its entire return on a Covered Bond (i.e., the excess of all remaining payments to be received on the Covered Bond, including payments of qualified stated interest, over the amount paid by such U.S. holder for such Covered Bond) under the constant-yield method described above. For Covered Bonds purchased at a premium or bearing market discount in the hands of the U.S. holder, the U.S. holder making such election will also be deemed to have made the election (discussed below in *Premium and Market Discount*) to amortize premium or to accrue market discount in income currently on a constant-yield basis.

In the case of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond, a U.S. holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Specified Currency using the constant-yield method described above, and (b) translating the amount of the Specified Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a U.S. holder's taxable year) or, at the U.S. holder's election (as described above under *Payments of Interest*), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt (if such date is within five business days of the last day of the accrual period). Because exchange rates may fluctuate, a U.S. holder of an Original Issue Discount Covered Bond that is also a Foreign Currency Covered Bond may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Covered Bond denominated in U.S. dollars. All payments on an Original Issue Discount Covered Bond (other than payments of qualified stated interest) will generally be viewed first as payments of previously accrued OID (to the extent thereof, with payments attributed first to the earliest-accrued OID), and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Covered Bond), a U.S. holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Covered Bond, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent U.S. holder of an Original Issue Discount Covered Bond that purchases such Covered Bond at a cost less than its remaining redemption amount (as defined below), or an initial U.S. holder that purchases an Original Issue Discount Covered Bond at a price other than such Covered Bond's issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the U.S. holder acquires the Original Issue Discount Covered Bond at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The remaining redemption amount for an Original Issue Discount Covered Bond is the total of all future payments to be made on such Covered Bond other than payments of qualified stated interest.

Floating Rate Covered Bonds generally will be treated as variable rate debt instruments under the OID Regulations. Accordingly, the stated interest on a Floating Rate Covered Bond generally will be treated as

qualified stated interest, and such a Covered Bond will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Covered Bond does not qualify as a variable rate debt instrument, such Covered Bond will be subject to special rules (the Contingent Payment Regulations) that govern the tax treatment of debt obligations that provide for contingent payments (Contingent Debt Obligations). A detailed description of the tax considerations relevant to U.S. holders of any such Covered Bonds will be provided in the applicable Final Terms.

If certain of the Covered Bonds are subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Final Terms, such Covered Bonds (particularly Original Issue Discount Covered Bonds) may be subject to special rules that differ from the general rules discussed above. Purchasers of Covered Bonds with such features should carefully examine the applicable Final Terms and should consult their own tax advisors with respect to such Covered Bonds since the tax consequences with respect to such features, and especially with respect to OID, will depend, in part, on the particular terms of the purchased Covered Bonds.

#### *Premium and Market Discount*

A U.S. holder of a Covered Bond that purchases the Covered Bond at a cost greater than its remaining redemption amount (as defined above) will be considered to have purchased the Covered Bond at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Covered Bond. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. holder that elects to amortize such premium must reduce its tax basis in a Covered Bond by the amount of the premium amortized during its holding period. Original Issue Discount Covered Bonds purchased at a premium will not be subject to the OID rules described above. In the case of premium in respect of a Foreign Currency Covered Bond, a U.S. holder should calculate the amortization of such premium in the Specified Currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the U.S. holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Covered Bond based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Covered Bond and the exchange rate on the date on which the U.S. holder acquired the Covered Bond. With respect to a U.S. holder that does not elect to amortize bond premium, the amount of bond premium will be included in the U.S. holder's tax basis when the Covered Bond matures or is disposed of by the U.S. holder. Therefore, a U.S. holder that does not elect to amortize such premium and that holds the Covered Bond to maturity generally will be required to treat the premium as capital loss when the Covered Bond matures.

If a U.S. holder of a Covered Bond purchases the Covered Bond at a price that is lower than its remaining redemption amount or, in the case of an Original Issue Discount Covered Bond, its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Covered Bond will be considered to have **market discount** in the hands of such U.S. holder. In such case, gain realized by the U.S. holder on the disposition of the Covered Bond generally will be treated as ordinary income to the extent of the market discount that accrued on the Covered Bond while it was held by such U.S. holder. In addition, the U.S. holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Covered Bond. In general terms, market discount on a Covered Bond will be treated as accruing rateably over the term of such Covered Bond or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Covered Bond will be accrued by a U.S. holder in the Specified Currency. The amount includible in income by a U.S. holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Covered Bond is disposed of by the U.S. holder.

A U.S. holder may elect to include market discount in income on a current basis as it accrues (on either a rateable or constant-yield basis) in lieu of treating a portion of any gain realized on a sale of a Covered Bond as ordinary income. If a U.S. holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Covered Bond that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. holder's taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

### *Short-Term Covered Bonds*

The rules set forth above will also generally apply to Covered Bonds having maturities of not more than one year (**Short-Term Covered Bonds**), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Covered Bond as qualified stated interest. Thus, all Short-Term Covered Bonds will be Original Issue Discount Covered Bonds. OID will be treated as accruing on a Short-Term Covered Bond rateably or, at the election of a U.S. holder, under a constant yield method.

Second, a U.S. holder of a Short-Term Covered Bond that uses the cash method of tax accounting, that is not a bank, securities dealer, regulated investment company or common trust fund, and that does not identify the Short-Term Covered Bond as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a U.S. holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the Short-Term Covered Bond until the maturity of such Covered Bond or its earlier disposition in a taxable transaction. In addition, such a U.S. holder will be required to treat any gain realized on a sale, exchange or retirement of the Short-Term Covered Bond as ordinary income to the extent such gain does not exceed the OID accrued with respect to such Covered Bond during the period the U.S. holder held the Covered Bond. Notwithstanding the foregoing, a cash-basis U.S. holder of a Short-Term Covered Bond may elect to accrue original issue discount into income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A U.S. holder using the accrual method of tax accounting and certain cash-basis U.S. holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Covered Bond in income on a current basis.

Third, any U.S. holder (whether cash or accrual basis) of a Short-Term Covered Bond can elect to accrue the "acquisition discount", if any, with respect to such Covered Bond on a current basis. If such an election is made, the OID rules will not apply to the Short-Term Covered Bond. Acquisition discount is the excess of the remaining redemption amount of the Short-Term Covered Bond at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing rateably or, at the election of the U.S. holder, under a constant-yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Covered Bond.

### *Index-Linked Covered Bonds and Other Covered Bonds Providing for Contingent Payments*

The Contingent Payment Regulations, which govern the tax treatment of Contingent Debt Obligations, generally require accrual of interest income on a constant-yield basis in respect of such obligations at a yield determined at the time of their issuance, and may require adjustments to such accruals when any contingent payments are made. A detailed description of the tax considerations relevant to U.S. holders of any Contingent Debt Obligations will be provided in the applicable Final Terms.

### *Information Reporting and Backup Withholding*

The Paying Agent will be required to file information returns with the IRS with respect to payments made to certain U.S. holders of Covered Bonds. In addition, certain U.S. holders may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification number or certification of exempt status to the Paying Agent or otherwise comply with the applicable backup withholding requirements. Persons holding Covered Bonds who are not U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of such information reporting requirements and backup withholding tax.

The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. holders should consult their tax advisors as to their qualification for exemption from information reporting and/or backup withholding.

### **ERISA Considerations**

The Covered Bonds should be eligible for purchase by employee benefit plans and other plans subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of section

4975 of the Code and by governmental, church and non-U.S. plans that are subject to state, local, other federal law of the United States or non-U.S. law that is substantially similar to ERISA or section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on employee benefit plans (as defined in section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under *Risk Factors*.

Section 406 of ERISA and section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest or disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions contemplated by the Transaction Documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of section 406 of ERISA or section 4975 of the Code may arise if any of the Covered Bonds is acquired or held by a Plan with respect to which the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of section 406 of ERISA and section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Covered Bonds and the circumstances under which such decision is made. Included among these exemptions are section 408(b)(17) of ERISA and section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Covered Bonds.

Each purchaser and subsequent transferee of any Covered Bond will be deemed by such purchase or acquisition of any such covered bond to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Covered Bond through and including the date on which the purchaser or transferee disposes of such Covered Bond, either that (a) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or non-U.S. plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code or (b) its purchase, holding and disposition of such Covered Bond will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. section 2510.3-101, as modified by section 3(42) of ERISA (the **Plan Asset Regulation**) describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an **equity interest** of an entity that is neither a **publicly-offered security** nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset

Regulation, a security which is in form debt may be considered an **equity interest** if it has **substantial equity features**. If the Issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Covered Bonds, such plan assets would include an undivided interest in the assets held by the Issuer and transactions by the Issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and section 4975 of the Code. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Covered Bonds should not be treated as **equity interests** for the purposes of the Plan Asset Regulation.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Covered Bonds should determine whether, under the documents and instruments governing the Plan, an investment in such Covered Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Covered Bonds (including any governmental plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any substantially similar state, local or other federal law).

The sale of any Covered Bonds to a Plan is in no respect a representation by the Issuer, the LLP, the Bond Trustee, the Security Trustee or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Any further ERISA considerations with respect to Covered Bonds may be found in the relevant Final Terms.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealer has, pursuant to a programme agreement (as the same may be amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 17 December 2008, agreed with the Issuer and the LLP a basis upon which such Dealer may from time to time agree to purchase Covered Bonds. Any such agreement for any particular purchase by the Dealer will extend to those matters stated under *Form of the Covered Bonds* and *Terms and Conditions of the Covered Bonds* above. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc, but the Issuer may appoint other dealers from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis.

The Issuer may pay each relevant Dealer commissions as agreed in connection with the sale of any Covered Bonds. In the Programme Agreement, the Issuer has agreed to reimburse and indemnify the relevant Dealer for certain of its expenses and liabilities in connection with the establishment and any future updates of the Programme and the issue of Covered Bonds under the Programme. The relevant Dealer is entitled to be released and discharged from its obligations in relation to any agreement to purchase Covered Bonds under the Programme Agreement in certain circumstances prior to payment to the Issuer.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations stabilising activities may only be carried on by the stabilising manager named in the applicable Final Terms and only for a period ending on the earlier of 30 days following the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the allotment of the relevant Tranche of Covered Bonds.

### Transfer Restrictions

*As a result of the following restrictions, purchasers of Covered Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Covered Bonds.*

Each purchaser of Registered Covered Bonds (other than a person purchasing an interest in a Registered Global Covered Bond with a view to holding it in the form of an interest in the same Registered Global Covered Bond) or person wishing to transfer an interest from one Registered Global Covered Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that either: (i) it is a QIB, purchasing (or holding) the Covered Bonds for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is outside the United States and is not a U.S. person;
- (b) that the Covered Bonds are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, that neither the Covered Bonds nor the Covered Bond Guarantee has been or will be registered under the Securities Act or any applicable U.S. State securities laws and that the Covered Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth in this section;
- (c) it agrees that neither the Issuer nor the LLP has any obligation to register the Covered Bonds or the Covered Bond Guarantee under the Securities Act;
- (d) that, unless it holds an interest in a Regulation S Global Covered Bond and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise

transfer the Covered Bonds or any beneficial interests in the Covered Bonds, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Covered Bonds, only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing the Covered Bonds for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

- (e) it will, and will require each subsequent holder to, notify any purchaser of the Covered Bonds from it of the resale restrictions referred to in paragraph (d) above, if then applicable;
- (f) that Covered Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Covered Bonds, and that Covered Bonds initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Covered Bonds;
- (g) that the Covered Bonds represented by a Rule 144A Global Covered Bond and Definitive Rule 144A Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITY OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDER OF SUCH SECURITY SENT TO ITS REGISTERED ADDRESS, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.";

- (h) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Covered Bonds prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the Issue Date), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Covered Bonds represented by a Regulation S Global Covered Bond and Definitive Regulation S Covered Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY AND ANY GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT IN RESPECT OF THIS SECURITY (THE **AGENCY AGREEMENT**) AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. UNTIL THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE ISSUE DATE, SALES MAY NOT BE MADE IN THE UNITED STATES OR TO U.S. PERSONS UNLESS MADE (I) PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (II) TO "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN, AND IN TRANSACTIONS PURSUANT TO, RULE 144A UNDER THE SECURITIES ACT."; and

- (i) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Covered Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Rule 144A Covered Bonds in the United States to any one purchaser will be for less than U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount and no Rule 144A Covered Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or the approximate equivalent in another Specified Currency) principal amount of Registered Covered Bonds.

The relevant Dealer may arrange for the resale of Covered Bonds to QIBs pursuant to Rule 144A and each such purchaser of Covered Bonds is hereby notified that the relevant Dealer may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Covered Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent in another Specified Currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Covered Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

## **Selling Restrictions**

### ***United States***

The Covered Bonds and the Covered Bond Guarantee have not been and will not be registered under the Securities Act and Covered Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Covered Bonds in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver a Covered Bond in bearer form within the United States or to United States persons except as permitted by the Programme Agreement. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

In connection with any Covered Bond represented by a Regulation S Global Covered Bond or any Definitive Regulation S Covered Bond (**Regulation S Covered Bond**), the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (**Distribution Compliance Period**), and except in either case in accordance with Regulation S under the Securities Act. The Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bond during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Covered Bond within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of a Tranche of Covered Bonds, an offer or sale of any Regulation S Covered Bond within the United States by any dealer (who is not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Programme Agreement provides that selected Dealers, through their selling agents which are registered broker-dealers in the United States, may resell Covered Bonds in the United States to QIBs pursuant to Rule 144A under the Securities Act.

Each Dealer appointed under the Programme Agreement will be required to represent and agree in respect of transactions under Rule 144A that it has not (and will not), nor has (nor will) any person acting on its behalf, (a) made offers or sales of any security, or solicited officers to buy, or otherwise negotiated in respect of, any security, under circumstances that would require the registration of the Covered Bonds under the Securities Act; or (b) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with any offer or sale of Covered Bonds in the United States.

Each issuance of Variable Interest Covered Bonds will be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms. The Issuer or, as the case may be, each relevant Dealer of an issue will agree that it will offer, sell or deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

#### ***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds which are the subject of an offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) if the Final Terms in relation to the Covered Bonds specify that an offer of those Covered Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Covered Bonds which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last (or, in Sweden, its last two) annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (b) to (e) above shall require the Issuer or any relevant Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### ***United Kingdom***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the LLP or, in the case of the Issuer, would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

#### ***Japan***

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended; the **Financial Instruments and Exchange Law**). Accordingly, the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Covered Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws, regulations and ministerial guidelines of Japan.

#### ***The Netherlands***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any Covered Bonds with a maturity of less than 12 months and a denomination of less than €50,000 (or its equivalent in another currency) will only be offered in The Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

#### ***Republic of Italy***

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies

of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of the Italian Securities Exchange Commission (**CONSOB**) Regulation no. 11522 of 1 July 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Furthermore, the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**);
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in accordance with any other applicable laws and regulations including those imposed by CONSOB.

### **Germany**

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it shall only offer or sell Covered Bonds in the Federal Republic of Germany in compliance with the provisions of the German Securities Selling Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) of 22 June 2005, or any other laws applicable in the Federal Republic of Germany governing the offer and sale of securities. The Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree that it shall not offer or sell the Covered Bonds in the Federal Republic of Germany in a manner which could result in the Issuer being subject to any licence requirement under the German Banking Act (*Kreditwesengesetz*).

### **Republic of France**

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that: it has only made and will only make an offer of Covered Bonds to the public in the Republic of France in the period beginning on the date of notification to the *Autorité des marchés financiers* (**AMF**) of the approval of the prospectus relating to those Covered Bonds by the competent authority of another Member State of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive No. 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the Prospectus, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF.

### **General**

These selling restrictions may be modified by the agreement of the Issuer and any relevant Dealer following a change in a relevant law, regulation or directive. Any such modification and any additional selling restrictions with which any relevant Dealer will be required to comply will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Prospectus.

None of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any Dealer represents that Covered Bonds may at any time lawfully be sold in compliance with any appropriate registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

The Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that it will, to the best of its knowledge and belief, comply with all relevant laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes this Prospectus, any other offering material or any Final Terms, and that it will, obtain any consent,

approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws, regulations or directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the LLP, the Bond Trustee, the Security Trustee or any Dealer shall have responsibility therefor.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree as a term of issue and purchase as indicated in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment, implementation and operation of the Programme and the issue of Covered Bonds. The establishment, implementation and operation of the Programme and the issue of Covered Bonds were authorised by resolutions of the Board of Directors of the Issuer dated 6 November 2008. The establishment, implementation and operation of the Programme and the giving of the Covered Bond Guarantee was duly confirmed and authorised by a resolution of the LLP Management Board dated 9 December 2008.

### Listing of Covered Bonds

The listing of the Covered Bonds on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Covered Bonds which is to be admitted to the Official List and to trading on the regulated market of the London Stock Exchange will be admitted separately as and when issued or on such later date as the Issuer may agree with the relevant Dealer, subject only (in the case of a listing upon issue) to the issue of a Temporary Global Covered Bond, a Permanent Global Covered Bond, a Regulation S Global Covered Bond or a Rule 144A Global Covered Bond, as the case may be, initially representing the Covered Bonds of such Tranche. The listing of the Programme in respect of Covered Bonds is expected to be granted on or about 22 December 2008. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

### Documents Available

For so long as Covered Bonds may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the office of Lloyds TSB Bank plc, 25 Gresham Street, London EC2V 7HN:

- (i) the Memorandum and Articles of Association of the Issuer and the constitutive documents of the LLP;
- (ii) the Trust Deed (which includes the Guarantee and the forms of the Global Covered Bonds, the definitive Covered Bonds, the Coupons, the Receipts and the Talons);
- (iii) the Agency Agreement;
- (iv) the Annual Report and Accounts of the Issuer for the two financial years ending 31 December 2006 and 31 December 2007;
- (v) pages 76-147 of the Annual Report and Accounts of Lloyds TSB Group plc for the financial year ending 31 December 2007 and the audit report thereon, and the information regarding Risk Management set out on pages 36 to 56 thereof;
- (vi) pages 25 to (and including) 45 of the Issuer's Interim Management Report for the half-year to 30 June 2008, published on 30 July 2008;
- (vii) pages 30 to (and including) 45 of Lloyds TSB Group plc's Interim Results News Release for the half-year to 30 June 2008, published on 30 July 2008;
- (viii) the announcement published by Lloyds TSB Group plc on 18 September 2008 regarding the recommended acquisition of HBOS plc by Lloyds TSB Group plc;
- (ix) the announcement published by Lloyds TSB Group plc on 13 October 2008 regarding revised terms for the acquisition of HBOS plc and raising £5.5 billion of new capital;
- (x) the Lloyds TSB Group plc interim management statement published on 3 November 2008;
- (xi) the Lloyds TSB Group plc Circular to its shareholders dated 3 November 2008;
- (xii) the Lloyds TSB Placing and Open Offer Prospectus published on 18 November 2008;
- (xiii) the HBOS Placing and Open Offer Prospectus published on 18 November 2008;
- (xiv) the HBOS Rights Issue Prospectus published on 19 June 2008;
- (xv) the Lloyds TSB Supplementary Placing and Open Offer Prospectus;

- (xvi) each Final Terms (save that Final Terms relating to a Covered Bond which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Covered Bonds and identity); and
- (xvii) a copy of this Prospectus together with any supplemental Prospectus or further Prospectus and any documents incorporated by reference.

The Prospectus and the Final Terms for Covered Bonds that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

### **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In addition, the Issuer may make an application with respect to any Registered Covered Bonds to be accepted for trading in book-entry form by DTC. Acceptance by DTC of Covered Bonds of each Tranche of a Registered Covered Bond Series issued by the Issuer will be confirmed in the applicable Final Terms. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Covered Bonds will be set out in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041-0099. The address of any alternative clearing system will be specified in the applicable Final Terms.

### **Significant or Material Change**

Save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "*Strong relationship banking growth in Wholesale and International Banking*", the third paragraph of the section headed "*In a difficult economic environment, asset quality remains satisfactory*" and the section headed "*Insurance volatility*" in the Management Statement, as incorporated by reference herein, there has been no significant change in the financial or trading position of Lloyds TSB Group since 30 June 2008, and save as disclosed in the 2008 Company Interim Results as incorporated by reference herein and save for a further deterioration in insurance volatility during October, and save as disclosed in the third paragraph of the section headed "*Strong relationship banking growth in Wholesale and International Banking*", the third paragraph of the section headed "*In a difficult economic environment, asset quality remains satisfactory*" and the section headed "*Insurance volatility*" in the Management Statement, as incorporated by reference herein, and save as disclosed in Part V of the Lloyds TSB Supplementary Placing and Open Offer Prospectus, as incorporated by reference herein, there has been no material adverse change in the prospects of the Lloyds TSB Group since 31 December 2007.

There has been no significant change in the financial or trading position of the LLP since the date of its incorporation and there has been no material adverse change in the prospects of the LLP since the date of its incorporation.

### **Litigation**

Save as disclosed in section 1 ("*UK Competition Commission investigation of payment protection insurance*"), sub-section 2.1 of section 2 ("*UK Office of Fair Trading*"), sub-section 2.2 of section 2 ("*UK Office of Fair Trading*") and section 3 ("*Office of Foreign Assets Control*") of the section entitled "*Lloyds TSB Group – Legal actions*" on pages 147 to 148 of this Prospectus, sections 18.1.1 to 18.1.3 ("*Litigation – HBOS*") of Part XXII ("*Additional Information*") of the HBOS Placing and Open Offer Prospectus and section 18 ("*Litigation*") of Part XVIII ("*Additional Information*") of the HBOS Rights Issue Prospectus (each as incorporated by reference herein), there are no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of the Lloyds TSB Group.

The LLP is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the LLP is aware) since 12 September 2008, the

date of its incorporation, which may have or have had in the recent past a significant effect on the LLP's financial position or profitability.

### **Independent Auditors**

PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, (members of the Institute of Chartered Accountants in England and Wales) have audited, and rendered unqualified audit reports on, the annual consolidated published accounts of the Issuer and its subsidiaries for the two financial years ended 31 December 2006 and 31 December 2007.

### **Reports**

The Trust Deed provides that the Bond Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Trust Deed, whether or not any such report or other information, or engagement letter or other document entered into by the Bond Trustee and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person.

### **Post-issuance information**

The Issuer intends to provide a monthly Asset Coverage and Investor Report which will be made available to Covered Bondholders at [www.investorrelations.lloydstsb.com](http://www.investorrelations.lloydstsb.com) detailing, among other things, compliance with the Asset Coverage Test. The Issuer takes no responsibility or liability as to the accuracy or completeness of the information set out on its website nor does the contents of its website or any information set out thereon form any part of this Prospectus.

## GLOSSARY

<b>2008 Company Interim Results</b>	The meaning given in (v) on page 11
<b>30/360, 360/360 or Bond Basis</b>	The meaning given in Condition 4.6(c)(vi) on page 105
<b>30E/360 or Eurobond Basis</b>	The meaning given in Condition 4.6(c)(vii) on page 106
<b>30E/360 (ISDA)</b>	The meaning given in Condition 4.6(c)(viii) on page 106
<b>1999 Regulations</b>	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083), as amended
<b>€, Euro or euro</b>	The lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March, 1957, as amended by, <i>inter alia</i> , the Single European Act of 1986 and the Treaty of European Union of 7th February, 1992 and the Treaty of Amsterdam of 2nd October, 1997 establishing the European Community
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>\$, U.S.\$ or U.S. Dollars or US Dollars</b>	The lawful currency for the time being of the United States of America
<b>¥, Yen or JPY</b>	The lawful currency for the time being of Japan
<b>ABS</b>	Asset Backed Securities
<b>Account Bank</b>	Lloyds TSB Bank plc acting in its capacity as account bank and any other financial institution which accedes to the Bank Account Agreement as an Account Bank
<b>Account Bank Required Ratings</b>	At least a short-term, unsecured, unsubordinated and unguaranteed debt obligation rating of P-1 by Moody's and A-1 by S&P (or such other ratings that may be agreed between the parties to the Bank Account Agreement or the Guaranteed Investment Contract, as the case may be, provided that a Rating Agency Confirmation has been obtained)
<b>Accrual Yield</b>	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Accrued Interest</b>	In relation to a Loan as at any date, interest accrued but not yet due and payable on such Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date
<b>Acquisition</b>	The proposed acquisition by Lloyds TSB Group plc of HBOS by means of the Scheme (or by means of an offer if Lloyds TSB so elects in accordance with the terms of the Circular and subject to the consent of the Panel)
<b>Acquisition Announcement</b>	The meaning given in (vi) on page 11
<b>Acquisition and Capital Announcement</b>	The meaning given in (vii) on page 11
<b>Actual/360</b>	The meaning given in Condition 4.6(c)(v) on page 105
<b>Actual/365 (Fixed)</b>	The meaning given in Condition 4.6(c)(iii) on page 105
<b>Actual/Actual (ICMA)</b>	The meaning given in Condition 4.6(c)(i) on page 105
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms
<b>Adjusted Aggregate Loan Amount</b>	The meaning given on page 172

<b>Adjusted Current Balance</b>	The meaning given on page 172
<b>Adjusted Required Redemption Amount</b>	The meaning given on page 177
<b>Agency Agreement</b>	The agency agreement dated the Programme Date and made between the Issuer, the LLP, the Bond Trustee, the Security Trustee, the Principal Paying Agent and the other Paying Agents, the Exchange Agent, the Registrar and the Transfer Agent (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Agents</b>	The Paying Agents, the Registrar, the Exchange Agent, the Transfer Agents and any Calculation Agent
<b>Amortisation Test</b>	The meaning given on page 175
<b>Amortisation Test Aggregate Loan Amount</b>	The meaning given on page 175
<b>Amortisation Test Current Balance</b>	The meaning given on page 175
<b>Amortised Face Amount</b>	The meaning given on page 114
<b>A Ordinary Shares</b>	Means the A ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and “A Ordinary Share” means any one of them;
<b>Arrears Adjusted Current Balance in Arrears</b>	The meaning given on page 173 In respect of a Mortgage Account, that one or more Monthly Payments in respect of such Mortgage Account have become due and remain unpaid by a Borrower;
<b>Arrears of Interest</b>	In respect of a Loan as at any date, the aggregate of all interest which is due and payable and remains unpaid on that date
<b>Asset Amount</b>	The meaning set out in Condition 6.13 of the Terms and Conditions;
<b>Asset Coverage and Investor Report</b>	The report substantially in the form set out in Schedule 3 to the Cash Management Agreement, to be prepared by the Cash Manager each month or at such other intervals as Lloyds TSB Bank plc, the LLP, the Cash Manager and the Rating Agencies may agree
<b>Asset Coverage Test</b>	The meaning given on page 171
<b>Asset Coverage Test Breach Notice</b>	The notice required to be served by the Bond Trustee if the Asset Coverage Test is not satisfied on two consecutive Calculation Dates
<b>Asset Monitor</b>	PricewaterhouseCoopers LLP appointed as such under the Asset Monitor Agreement (and any successor asset monitor appointed in accordance with the Asset Monitor Agreement)
<b>Asset Monitor Agreement</b>	The asset monitor agreement entered into on the Programme Date between the Asset Monitor, the LLP, the Cash Manager, the Issuer, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Asset Monitor Report</b>	A report substantially in the form contained in Schedule 2 of the Asset Monitor Agreement and prepared by the Asset Monitor on the basis of and in accordance with the calculations and procedures set out in Schedule 3 of the Asset Monitor Agreement

<b>Asset Percentage</b>	85 per cent. or such lower percentage figure as determined from time to time pursuant to Clause 11.3 of the LLP Deed
<b>Asset Pool</b>	All assets of the LLP from time to time including but not limited to the Portfolio, any Substitution Assets, any Authorised Investments, the rights of the LLP in the Transaction Documents, the LLP Accounts and, in the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under Regulation 14 of the RCB Regulations, all amounts standing to the credit thereto and any other assets referred to in Regulation 3(1) ( <i>Asset Pool</i> ) of the RCB Regulations, provided that all such assets are recorded as comprising the asset pool under the RCB Regulations
<b>Authorised Investments</b>	<p>Each of:</p> <ul style="list-style-type: none"> <li>(a) Sterling gilt-edged securities having a remaining maturity of 30 days or less and maturing on or before the next following LLP Payment Date; and</li> <li>(b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of 30 days or less and mature on or before the next following LLP Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorized person under the FSMA) are rated at least (i) A-1+ by S&amp;P and P-1 by Moody's or (ii) their equivalents by two other internationally recognised rating agencies,</li> </ul> <p>provided that, in the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds under the RCB Regulations, such Authorised Investments comply with the requirements of Regulation 2(1)(a) of the RCB Regulations</p>
<b>Available Principal Receipts</b>	<p>On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):</p> <ul style="list-style-type: none"> <li>(a) the amount of Principal Receipts received during the immediately preceding Calculation Period and credited to the Principal Ledger on the GIC Account;</li> <li>(b) any other amount standing to the credit of the Principal Ledger including (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios or invest in Substitution Assets), (ii) any Cash Capital Contributions received from a Member (other than those Cash Capital Contributions credited to the Reserve Ledger on the GIC Account) and (iii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds represent principal, but excluding any amount of principal received under the Covered Bond Swap Agreements, which is otherwise applied by the LLP in accordance with the provisions of the LLP Deed;</li> <li>(c) following repayment of any Hard Bullet Covered Bonds by the Issuer and the LLP on the Final Maturity Date thereof, any amounts standing to the credit of the Pre-Maturity Liquidity Ledger in respect of such Series of Hard Bullet Covered</li> </ul>

Bonds (except where the LLP has elected to or is required to retain such amounts on the Pre-Maturity Liquidity Ledger);

(d) the amount of any termination payment received from a Swap Provider which is not applied to acquire a replacement for the relevant terminated Swap; and

(e) any Excess Proceeds,

*Excluding (for the avoidance of doubt)*

(f) any Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Principal Receipts);

(g) Tax Credits (including, for the avoidance of doubt, any amount received by the LLP from a Member in respect of Tax Credits) (to the extent otherwise constituting Available Principal Receipts); and

(h) Swap Provider Tax Payments received from Swap Providers (to the extent otherwise constituting Available Principal Receipts)

### **Available Revenue Receipts**

On a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

(a) the amount of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger on the GIC Account;

(b) other net income of the LLP including all amounts of interest received on the LLP Accounts, the Substitution Assets and any Authorised Investments in the preceding Calculation Period and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the LLP Deed or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest, but excluding amounts received by the LLP under the Interest Rate Swap Agreement and amounts in respect of interest received by the LLP under each Covered Bond Swap Agreement, in each case which is otherwise applied by the LLP in accordance with the LLP Deed;

(c) amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;

(d) any other Revenue Receipts not referred to in paragraphs (a) to (c) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account;

(e) following service of a Notice to Pay or an Asset Coverage Test Breach Notice (which remains outstanding), amounts standing to the credit of the Reserve Fund; and

(f) the amount of any premium received by the LLP from a new Swap Provider as consideration for the entry by the LLP into a new Swap, except to the extent applied to pay any termination payment under the relevant Swap being replaced,

*Excluding (for the avoidance of doubt)*

(g) Third Party Amounts (to the extent otherwise constituting Available Revenue Receipts), which shall be paid on receipt in cleared funds to the Seller;

(h) Tax Credits (including, for the avoidance of doubt, any

	amount received by the LLP from a Member in respect of Tax Credits) (to the extent otherwise constituting Available Revenue Receipts);
	(i) Swap Collateral Excluded Amounts (to the extent otherwise constituting Available Revenue Receipts); and
	(j) Swap Provider Tax Payments received from the Swap Providers
<b>B Ordinary Shares</b>	Means the B ordinary shares of 25 pence each in the capital of HBOS, as created on the reclassification of HBOS share capital pursuant to the Scheme Special Resolution and the Scheme, and <b>B Ordinary Share</b> means any one of them
<b>Bank Account Agreement</b>	The bank account agreement entered into on the Programme Date between the LLP, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Banking Act</b>	Financial Services Act and Legislative Decree No. 385 of 1 September 1993 of the Republic of Italy, as amended
<b>Bearer Covered Bonds</b>	Covered Bonds in bearer form
<b>Bearer Definitive Covered Bond</b>	A Bearer Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), such Bearer Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue
<b>Bearer Global Covered Bonds</b>	Global Covered Bonds in bearer form, comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds substantially in the forms set out in Part 1 and Part 2, respectively, of Schedule 2 to the Trust Deed
<b>Beneficial Owner</b>	Each actual purchaser of each DTC Covered Bond
<b>Block Buildings Insurance</b>	The block buildings insurance cover provided to Lloyds TSB Bank plc by Aviva Insurance Limited
<b>Bond Trustee</b>	BNY Corporate Trustee Services Limited, in its capacity as bond trustee under the Trust Deed together with any successor or additional bond trustee appointed from time to time thereunder
<b>Borrower</b>	In relation to a Loan, each individual specified as such in the relevant Mortgage Conditions together with each individual (if any) from time to time assuming an obligation to repay such Loan or any part of it
<b>Broken Amount</b>	The meaning (if any) given in the applicable Final Terms

<b>Business Day</b>	The meaning given in Condition 4.6 on page 104
<b>Business Day Convention</b>	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 4.6 on page 104
<b>C&amp;G and Cheltenham &amp; Gloucester</b>	Cheltenham & Gloucester plc (registered number 02299428), a public limited company incorporated under the laws of England and Wales, whose registered office is at Barnett Way, Gloucester GL4 3RL
<b>Calculation Agent</b>	In relation to one or more Series of Variable Interest Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the LLP pursuant to the Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds
<b>Calculation Amount</b>	In relation to any Series of Covered Bonds has the meaning given to it in the applicable Final Terms
<b>Calculation Date</b>	The third London Business Day prior to each LLP Payment Date
<b>Calculation Period</b>	The period from, and including the first day of each calendar month to, and including, the last day of each calendar month except that for the first Series of Covered Bonds the first Calculation Period means the period from, and including, the First Sale Date to, and including, the last day of January 2009
<b>Capital Account Ledger</b>	The ledger maintained by the Cash Manager on behalf of the LLP in respect of each Member to record the balance of each Member's Capital Contributions from time to time
<b>Capital Balance</b>	For a Loan at any date the principal balance of that Loan to which the Servicer applies the relevant interest rate at which interest on that Loan accrues which, for the avoidance of doubt, shall not include Capitalised Expenses and Capitalised Interest
<b>Capital Contribution</b>	In relation to each Member, the aggregate of the capital contributed by that Member to the LLP from time to time by way of Cash Capital Contributions and Capital Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in the LLP Deed
<b>Capital Contribution in Kind</b>	A contribution by way of Loans and their Related Security to the LLP in an amount equal to (a) the Current Balance of those Loans as at the relevant Sale Date minus (b) any cash payment paid by the LLP to the Seller for the Loans and their Related Security on that Sale Date, plus (c) the principal amount of all Flexible Loan Drawings and Further Advances in respect of such Loans which are funded by the Seller as a Member of the LLP and, without double-counting, any increases in the Current Balance of the relevant account
<b>Capital Distribution</b>	Any return on a Member's Capital Contribution in accordance with the terms of the LLP Deed (and excluding, for the avoidance of doubt, any Deferred Consideration)
<b>Capital Reduction</b>	The proposed reduction of share capital of HBOS comprised in the Scheme
<b>Capitalised Expenses</b>	In relation to a Loan, the amount of all expenses, charges, fees, premiums or payments capitalised and added to the Capital Balance in respect of such Loan in accordance with the relevant Mortgage Conditions

<b>Capitalised Interest</b>	The aggregate increase in the Capital Balance of a Loan that occurs as a result of the interest accruing on the Capital Balance
<b>Cash Capital Contribution</b>	A capital contribution to the LLP made in cash whether by way of loan or otherwise and including the amount paid by the Seller to the LLP in respect of unpaid interest and principal in association with the Underpayment any Payment Holidays on the Loans in the Portfolio in accordance with the provisions of the LLP Deed
<b>Cash Management Agreement</b>	The cash management agreement entered into on the Programme Date between the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Cash Manager</b>	C&G, in its capacity as cash manager or any successor cash manager appointed from time to time pursuant to the Cash Management Agreement
<b>CCA</b>	Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	Consumer Credit Act 2006
<b>CCA Trust</b>	The meaning given on page 158
<b>CCA Trust Property</b>	All English Loans and their Related Security subject to the CCA Trust
<b>Certificate of Title</b>	A solicitor's or licensed conveyancer's or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation
<b>Charged Property</b>	The meaning given on page 185
<b>Circular</b>	The meaning given in (ix) on page 11
<b>Clearing Systems</b>	DTC, Euroclear and/or Clearstream, Luxembourg
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme or its successors
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	Mortgage Code (as defined below)
<b>Common Depositary</b>	The common depositary for Euroclear and Clearstream, Luxembourg
<b>Common Safekeeper</b>	Euroclear SA/NV or any entity so determined pursuant to the Agency Agreement
<b>Companies Act</b>	The meaning given to the term "Companies Acts" in Section 2 of the Companies Act 2006, with the addition of the words "to the extent that they are in force" at the end of Section 2(1)(a) (as it applies to limited liability partnerships) and any regulations made pursuant to those Acts to the extent that they are in force
<b>Consumer Credit Directive</b>	Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC
<b>Corporate Services Agreement</b>	The corporate services agreement dated the Programme Date entered into by the Liquidation Member and Holdings, with, <i>inter alios</i> , the Corporate Services Provider and the LLP (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Corporate Services Provider</b>	Structured Finance Management Limited acting through its office at 35 Great St. Helen's, London EC3A 6AP, in its capacity as corporate services provider together with any successor corporate services provider from time to time
<b>Coupon</b>	An interest coupon appertaining to a Bearer Definitive Covered Bond

(other than a Zero Coupon Covered Bond), such coupon being:

- (a) if appertaining to a Fixed Rate Covered Bond, substantially in the form set out in Part 5A of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer; or
- (b) if appertaining to a Floating Rate Covered Bond or an Index Linked Interest Covered Bond, substantially in the form set out in Part 5B of Schedule 2 to the Trust Deed or in such other form, having regard to the terms of issue of the Covered Bonds of the relevant Series, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer; or
- (c) if appertaining to a Bearer Definitive Covered Bond which is neither a Fixed Rate Covered Bond nor a Floating Rate Covered Bond nor an Index Linked Interest Covered Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer

<b>Couponholders</b>	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons)
<b>Court Meeting or HBOS Court Meeting</b>	The meeting of the Scheme Shareholders (and any adjournment thereof) to be convened pursuant to an order of the Court of Session in Edinburgh pursuant to section 896 of the Companies Act 2006, (as amended) in so far as in force; for the purpose of considering and, if thought fit, approving the Scheme (with or without amendment)
<b>Covered Bond</b>	Each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Trust Deed, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 10 of the Terms and Conditions
<b>Covered Bond Guarantee</b>	An unconditional and irrevocable guarantee by the LLP in the Trust Deed for the payment (following service of a Notice to Pay or an LLP Acceleration Notice) of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment
<b>Covered Bond Swap</b>	Each transaction between the LLP, the relevant Covered Bond Swap Provider and the Security Trustee pursuant to a Covered Bond Swap Agreement
<b>Covered Bond Swap Agreement</b>	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee governing any Covered Bond Swaps in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Covered Bond Swap Early Termination Event</b>	The meaning given on page 183
<b>Covered Bond Swap Provider</b>	Each provider of a Covered Bond Swap under a Covered Bond Swap Agreement
<b>Covered Bond Swap Rate</b>	In relation to a Series of Covered Bonds, the exchange rate specified in the Covered Bond Swap relating to such Covered Bonds or, if the relevant Covered Bond Swap Agreement has terminated, the applicable spot rate
<b>Covered Bondholders</b>	Means the several persons who are for the time being holders of outstanding Covered Bonds (being, in the case of Bearer Covered

Bonds, the bearers thereof and, in the case of Registered Covered Bonds, the several persons whose names are entered in the register of holders of the Registered Covered Bonds as the holders thereof) save that, in respect of the Covered Bonds of any Series, for so long as such Covered Bonds or any part thereof are represented by a Bearer Global Covered Bond deposited with a common depositary or, as the case may be, the Common Safekeeper for Euroclear and Clearstream, Luxembourg, or so long as DTC, Euroclear or Clearstream, Luxembourg or its nominee is the registered holder of a Registered Global Covered Bond, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) or, as the case may be, DTC or its nominee, as the holder of a particular principal amount of the Covered Bond of such Series shall be deemed to be the holder of such principal amount of such Covered Bonds (and the holder of the relevant Global Covered Bond shall be deemed not to be the holder) for all purposes under the Trust Deed other than with respect to payment of principal or interest on such principal amount of such Covered Bonds and, in the case of DTC or its nominee, voting, giving consents and making requests pursuant to the Trust Deed, the rights to which shall be vested, as against the Issuer, the LLP and the Bond Trustee, solely in such common depositary or the Common Safekeeper or, as the case may be, DTC or its nominee and for which purpose such common depositary or the Common Safekeeper or, as the case may be, DTC or its nominee shall be deemed to be the holder of such principal amount of such Covered Bonds in accordance with and subject to its terms and the provisions of the trust presents and the expressions **Covered Bondholder**, **Holder** and **holder of Covered Bonds** and related expressions shall be construed accordingly

**Currency Linked Covered Bonds**

Covered Bonds identified as such in the applicable Final Terms

**Credit Linked Interest Covered Bonds**

Covered Bonds in respect of which payments of interest will be calculated by reference to the creditworthiness of, performance of obligations by or some other factor relating to one or more Reference Entities, as set out in the applicable Final Terms

**Current Balance**

In relation to any Loan at any date (the **current balance determination date**), the aggregate at such date (but avoiding double counting) of:

- (a) the Initial Advance;
- (b) Further Advances and/or Flexible Loan Drawings ;
- (c) Capitalised Expenses;
- (d) Capitalised Interest; and
- (e) all expenses, charges, fees, premium or payment due and owing by the Borrower which have not yet been capitalised

in each case relating to such Loan less all prepayments, repayments or payments of any of the foregoing made on or prior to the current balance determination date

**Custodian**

Any custodian with whom the relevant Registered Global Covered Bonds have been deposited

**Customer Files**

The file or files relating to each Loan and its Related Security containing, *inter alia*:

- (a) all material correspondence relating to that Loan; and

	(b) the completed mortgage documentation applicable to the Loan (other than the Title Deeds) including the Valuation Report and the solicitor's or licensed or qualified conveyancer's Certificate of Title,  whether original documentation, in electronic form or otherwise
<b>Day Count Fraction</b>	The meaning given in Condition 4.6(c) on page 105
<b>DBERR</b>	Department for Business, Enterprise and Regulatory Reform 1 Victoria Street, London SW1H 0ET
<b>Dealer</b>	Each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. As at the date of this Prospectus, the Dealer is Lloyds TSB Bank plc (referred to throughout this Prospectus as the <b>Dealer</b> )
<b>Deed of Charge</b>	The deed of charge dated the Programme Date and made between the LLP, the Bond Trustee, the Security Trustee and the other Secured Creditors (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Defaulted Loan</b>	Any Loan in the Portfolio where the amount in Arrears is equal to or greater than three times the current Monthly Payment
<b>Deferred Consideration</b>	The consideration payable to the Seller in respect of the Loans sold to the LLP from time to time, which is payable after making payments of a higher order of priority as set out in the relevant Priority of Payments
<b>Deferred Share</b>	Means one unissued ordinary share of 25 pence in the share capital of HBOS that is to be reclassified as a non-voting deferred share of 25 pence and issued to Lloyds TSB prior to the Scheme record date
<b>Definitive Covered Bond</b>	A Bearer Definitive Covered Bond and/or a Registered Definitive Covered Bond, as the context may require
<b>Definitive Regulation S Covered Bond</b>	A Registered Covered Bond in definitive form sold to non-U.S. persons outside the United States in reliance on Regulation S
<b>Definitive Rule 144A Covered Bond</b>	A Registered Covered Bond in definitive form sold in the United States to QIBs in reliance on Rule 144A
<b>Designated Account</b>	The meaning given in Condition 5.4 of the Terms and Conditions
<b>Designated Bank</b>	The meaning given in Condition 5.4 of the Terms and Conditions
<b>Designated Maturity</b>	The meaning given in the ISDA Definitions
<b>Designated Member</b>	Each Member appointed and registered as such from time to time having those duties and obligations set out in Sections 8 and 9 of the LLPA being, as at the Programme Date, Lloyds TSB Bank plc and the Liquidation Member
<b>Determination Date</b>	The meaning given in the applicable Final Terms
<b>Determination Period</b>	The meaning given in Condition 4.6 of the Terms and Conditions
<b>Direct Participants</b>	Direct participants in DTC
<b>Directors</b>	The directors for the time being of the Issuer
<b>Disclosure and Transparency Rules</b>	The Disclosure and Transparency Rules made by the FSA under Part VI of FSMA
<b>Distribution Compliance Period</b>	The period that ends 40 days after the later of the commencement of the offering and the Issue Date
<b>DTC</b>	The Depository Trust Company or its successors

<b>DTC Covered Bonds</b>	Registered Covered Bonds accepted into DTC's book-entry settlement system
<b>DTCC</b>	The Depository Trust & Clearing Corporation
<b>Dual Currency Linked Covered Bond</b>	A Covered Bond in respect of which payments of interest will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, such currencies and rates of exchange to be specified in the applicable Final Terms
<b>Due for Payment</b>	<p>The requirement by the LLP to pay any Guaranteed Amount:</p> <p>(a) following service of a Notice to Pay but prior to service of an LLP Acceleration Notice:</p> <p style="margin-left: 40px;">(i) (except where paragraph (ii) below applies) on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached, or, if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Series of Covered Bonds, on the Interest Payment Date that would have applied if the Final Maturity Date of such Series of Covered Bonds had been the Extended Due for Payment Date or such other Interest Payment Date(s) specified in the applicable Final Terms (the <b>Original Due for Payment Date</b>); and</p> <p style="margin-left: 40px;">(ii) in relation to any Guaranteed Amount in respect of the Final Redemption Amount payable on the Final Maturity Date of a Series of Covered Bonds for which an Extended Due for Payment Date is specified in the applicable Final Terms, on the Extended Due for Payment Date, but only to the extent that the LLP, having received the Notice to Pay no later than the date falling one Business Day prior to the Extension Determination Date, does not pay Guaranteed Amounts corresponding to the full amount of the Final Redemption Amount in respect of such Series of Covered Bonds by the Extension Determination Date, because the LLP has insufficient moneys available under the Guarantee Priority of Payments to pay such Guaranteed Amounts in full on the earlier of (1) the date which falls two Business Days after service of the Notice to Pay on the LLP or, if later, the Final Maturity Date (in each case after the expiry of the grace period set out in the Final Terms (if any)) and (2) the Extension Determination Date or if, in either case, such day is not a Business Day, the next following Business Day.</p> <p style="margin-left: 80px;">For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or</p> <p>(b) following service of an LLP Acceleration Notice, on the date on which the LLP Acceleration Notice is served on the Issuer and the LLP,</p> <p>and the date on which any payment is Due for Payment shall be the</p>

	<b>Due for Payment Date</b>
<b>Earliest Maturing Covered Bonds</b>	At any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to service of an LLP Acceleration Notice)
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 6.7
<b>Early Repayment Charges</b>	The charge which a Borrower is required to pay under the terms of the relevant Loan if he or she repays all or part of the Loan before a specified date
<b>Effective</b>	in the context of the Acquisition: <ul style="list-style-type: none"> <li>(a) if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms; or</li> <li>(b) if the Acquisition is implemented by way of a takeover offer under section 974 of the Companies Act 2006 (as amended) in so far as in force, the takeover offer having been declared or become unconditional in all respects in accordance with the requirements of the City Code on Takeovers and Mergers</li> </ul>
<b>Effective Date</b>	The date on which the Scheme becomes effective in accordance with its terms
<b>Eligibility Criteria</b>	The meaning given on page 159
<b>English Loan</b>	A Loan secured by a Mortgage over a Property located in England or Wales
<b>Enlarged Group</b>	With effect from the Effective Date, the combined Lloyds TSB Group and HBOS Group
<b>Equity Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms
<b>Equity Linked Redemption Covered Bonds</b>	Covered Bonds identified as such in the applicable Final Terms
<b>EU</b>	The European Union
<b>EU Capital Requirements Directive</b>	Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)
<b>EURIBOR</b>	Euro-zone inter-bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V. or its successors
<b>Excess Proceeds</b>	In accordance with the Terms and Conditions, moneys received (following service of an Issuer Acceleration Notice) by the Bond Trustee from the Issuer or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar officer appointed in relation to the Issuer
<b>Exchange Act</b>	The U.S. Securities Exchange Act of 1934, as amended
<b>Exchange Agent</b>	The Bank of New York Mellon in its capacity as exchange agent (which expression shall include any successor exchange agent)
<b>Exchange Date</b>	On or after the date which is 40 days after a Temporary Global Covered Bond is issued

<b>Exchange Event</b>	In the case of Bearer Covered Bonds, the meaning given on page 75 and in the case of Registered Covered Bonds, the meaning given on page 77
<b>Excluded Scheduled Interest Amounts</b>	The meaning given in the definition of Scheduled Interest
<b>Excluded Scheduled Principal Amounts</b>	The meaning given in the definition of Scheduled Principal
<b>Excluded Swap Termination Amount</b>	In relation to a Swap Agreement, an amount equal to the amount of any termination payment due and payable under that Swap Agreement (a) to the relevant Swap Provider as a result of a Swap Provider Default with respect to such Swap Provider or (b) to the relevant Swap Provider following a Swap Provider Downgrade Event with respect to such Swap Provider
<b>Extended Covered Bond</b>	The meaning given on page 198
<b>Extended Due for Payment Date</b>	In relation to any Series of Covered Bonds, the date, if any, specified as such in the applicable Final Terms to which the payment of all or (as applicable) part of the Final Redemption Amount payable on the Final Maturity Date will be deferred in the event that the Final Redemption Amount is not paid in full by the Extension Determination Date
<b>Extension Determination Date</b>	In relation to any Series of Covered Bonds, the date falling two Business Days after the expiry of 14 days from (and including) the Final Maturity Date of such Series of Covered Bonds
<b>Extraordinary Resolution</b>	A resolution of the Covered Bondholders passed as such under the terms of the Trust Deed
<b>Final Maturity Date</b>	The Interest Payment Date on which a Series of Covered Bonds will be redeemed at the Final Redemption Amount in accordance with the Terms and Conditions
<b>Final Redemption Amount</b>	The meaning given in the applicable Final Terms
<b>Final Terms</b>	The final terms substantially in the form of Schedule 3 to the Agency Agreement which, with respect to each Tranche of Covered Bonds to be admitted to the Official List and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of listing of the applicable Tranche or Series of Covered Bonds
<b>Financial Services Act</b>	Legislative Decree No. 58 of 24 February 1998 of the Republic of Italy, as amended
<b>Financial Instruments and Exchange Law of Japan</b>	The Financial Instruments and Exchange Law of Japan Law No.25 of 1948, as amended
<b>First Sale Date</b>	The date on which the Initial Portfolio is assigned to the LLP pursuant to the terms of the Mortgage Sale Agreement or, if earlier, the date on which the Initial Portfolio becomes subject to the CCA Trust and one or more Scottish Declarations of Trust
<b>Fitch</b>	Fitch Ratings Ltd. or its successors
<b>Fixed Coupon Amount</b>	The meaning given in the applicable Final Terms
<b>Fixed Rate Covered Bonds</b>	Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) as indicated in the applicable Final Terms;
<b>Fixed Rate Loans</b>	Loans where the interest rate payable by the Borrower does not vary

	and is fixed for a certain period of time by the Seller
<b>Flexible Draw Capacity</b>	The meaning given on page 174
<b>Flexible Loan</b>	A type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Mortgage Account and/or overpay or underpay interest and principal in a given month and/or take a Payment Holiday
<b>Flexible Loan Drawing</b>	Any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance
<b>Floating Rate</b>	The meaning given in the ISDA Definitions
<b>Floating Rate Convention</b>	The meaning given in Condition 4.6 of the Terms and Conditions
<b>Floating Rate Covered Bonds</b>	Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> as set out in the applicable Final Terms
<b>Floating Rate Option</b>	The meaning given in the ISDA Definitions
<b>Following Business Day Convention</b>	The meaning given in Condition 4.6 of the Terms and Conditions
<b>Forward Starting Covered Bond Swap</b>	Each covered bond swap transaction described in a Forward Starting Covered Bond Swap Agreement
<b>Forward Starting Covered Bond Swap Agreement</b>	Each agreement between the LLP, the relevant Covered Bond Swap Provider and the Security Trustee in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay or an LLP Acceleration Notice) in the form of an ISDA Master Agreement, including a Schedule, one confirmation in relation to one transaction and a credit support annex
<b>FOS</b>	The Financial Ombudsman Service under the FSMA and the CCA 2006
<b>Framework</b>	A comprehensive framework, the text of which was published by the Basel Committee on Banking Supervision in June 2006 under the title " <i>International Convergence of Capital Measurement and Capital Standards: a Revised Framework (Comprehensive Version)</i> "
<b>FSA or Financial Services Authority</b>	The Financial Services Authority of the United Kingdom
<b>FSMA</b>	Financial Services and Markets Act 2000, as amended
<b>Further Advance</b>	In relation to a Loan, any advance of further money to the relevant Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage and does not

	include a Flexible Loan Drawing
<b>GIC Account</b>	The account in the name of the LLP held with the Account Bank and maintained subject to the terms of the Guaranteed Investment Contract, the Bank Account Agreement, the Deed of Charge and the LLP Deed or such additional or replacement account as may for the time being be in place pursuant to the Cash Management Agreement with the prior consent of the Security Trustee and designated as such
<b>GIC Provider</b>	Lloyds TSB Bank plc, in its capacity as GIC provider or any successor GIC provider appointed from time to time
<b>Global Covered Bond</b>	A Bearer Global Covered Bond and/or Registered Global Covered Bond, as the context may require
<b>Government's Announcement Group</b>	The meaning given on page 149 See "Lloyds TSB Group"
<b>Guaranteed Amounts</b>	Prior to service of an LLP Acceleration Notice, with respect to any Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Original Due for Payment Date or, if applicable, any Extended Due for Payment Date, or after service of an LLP Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds (other than additional amounts payable under Condition 7 of the Terms and Conditions), including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the LLP under the Trust Deed
<b>Guaranteed Amounts Due Date</b>	The later of (a) the date which is two Business Days following service of a Notice to Pay on the LLP, and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment
<b>Guaranteed Investment Contract or GIC</b>	The guaranteed investment contract dated the Programme Date between the LLP, the Cash Manager, the GIC Provider and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Guarantee Priority of Payments</b>	The meaning given on page 197
<b>Halifax Index</b>	The index of increases in house prices issued by Halifax, a division of Bank of Scotland plc, in relation to residential properties in the United Kingdom
<b>Halifax Price Indexed Valuation</b>	In relation to any Property at any date, the Latest Valuation of that Property increased or decreased as appropriate by the increase or decrease in the Halifax Index since the date of that Latest Valuation
<b>Hard Bullet Covered Bonds</b>	The Covered Bonds of a Tranche or Series which are not subject to an Extended Due for Payment Date as specified in the Final Terms
<b>HBOS</b>	HBOS plc, registered in Scotland with registered number SC218813
<b>HBOS ADSs</b>	The American Depositary Shares of HBOS, each representing one HBOS Share and evidenced by American Depositary Receipts, and <b>HBOS ADS</b> means any one of them
<b>HBOS Articles</b>	The articles of association of HBOS in force from time to time
<b>HBOS General Meeting</b>	The general meeting of HBOS Shareholders (and any adjournment thereof) to be convened for the purposes of considering and, if thought fit, approving, among other things, certain resolutions in connection with the Scheme, including any adjournment thereof

<b>HBOS Group</b>	HBOS and its subsidiary undertakings
<b>HBOS Open Offer</b>	The offer by HBOS to qualifying HBOS Shareholders to apply for the HBOS Open Offer Shares on the terms and subject to the prospectus to be published by HBOS and any associated application form
<b>HBOS Open Offer Shares</b>	Approximately 7.5 billion new HBOS Shares to be offered pursuant to the HBOS Placing and Open Offer and which HM Treasury has agreed to acquire pursuant to the HBOS Placing and Open Offer Agreement, subject to clawback in respect of valid applications by qualifying HBOS Shareholders
<b>HBOS Placing</b>	The conditional placing by HBOS of the HBOS Open Offer Shares with HM Treasury
<b>HBOS Placing and Open Offer</b>	The HBOS Placing and the HBOS Open Offer
<b>HBOS Placing and Open Offer Agreement</b>	The agreement relating to the HBOS Placing and Open Offer entered into with effect from 13 October 2008 by HBOS, HM Treasury, Morgan Stanley and Dresdner Kleinwort
<b>HBOS Placing and Open Offer Prospectus</b>	The meaning given in (xi) on page 13
<b>HBOS Rights Issue Prospectus</b>	The meaning given in (xii) on page 13
<b>HBOS Shareholders</b>	The registered holders of HBOS Shares and such term shall include holders of HBOS ADSs, as the case may be, and "HBOS Shareholder" means any of such holders
<b>HBOS Shares</b>	The ordinary shares of 25 pence each in the capital of HBOS (including Shares underlying HBOS ADSs) and <b>HBOS Share</b> means any one of them
<b>Hearing Record Time</b>	6:00 p.m. on the Business Day (meaning any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London and Edinburgh) immediately preceding the Reduction Court Hearing
<b>HM Treasury</b>	The Commissioners of Her Majesty's Treasury (or, where HM Treasury has nominated a nominee to acquire any shares which HM Treasury would otherwise be obliged to acquire, such nominee)
<b>Holding Company</b>	Any body corporate which is for the time being a holding company within the meaning given to it in Section 1159 of the Companies Act
<b>Holdings</b>	Lloyds TSB Secured Finance (Holdings) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6760604)
<b>Index Linked Interest Covered Bonds</b>	Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of such securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree
<b>Index Linked Redemption Covered Bonds</b>	Covered Bonds identified as such in the applicable Final Terms
<b>Indexed Valuation</b>	In relation to any Loan secured over any Property at any date: <ul style="list-style-type: none"> <li>(a) where the Latest Valuation of that Property is equal to or greater than the Halifax Price Indexed Valuation as at that date, the Halifax Price Indexed Valuation; or</li> <li>(b) where the Latest Valuation of that Property is less than the Halifax Price Indexed Valuation as at that date, the Latest Valuation plus 85 per cent. of the difference between the</li> </ul>

Latest Valuation and the Halifax Price Indexed Valuation

<b>Indirect Participants</b>	Indirect participants in DTC that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly
<b>Initial Advance</b>	<p>In relation to a Loan, the original principal amount advanced by the Seller including any retention(s) advanced to the relevant Borrower in accordance with the Mortgage Conditions after completion of the Mortgage but excluding any:</p> <ul style="list-style-type: none"><li>(a) Further Advance; and</li><li>(b) Flexible Loan Drawing,</li></ul> <p>in each case relating to any such Loan</p>
<b>Initial Portfolio</b>	The meaning given on page 203
<b>Insolvency Act</b>	Insolvency Act 1986, as amended
<b>Insolvency Event</b>	<p>In respect of the Seller, the Servicer or Cash Manager:</p> <ul style="list-style-type: none"><li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity; or</li><li>(b) the relevant entity ceases or threatens to cease to carry on the whole of its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or</li><li>(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or the substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness</li></ul>
<b>Instalment Amounts</b>	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms
<b>Instalment Covered Bonds</b>	Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms
<b>Instalment Dates</b>	In respect of Instalment Covered Bonds, each date specified as such in

	the applicable Final Terms
<b>Insurance Acknowledgement</b>	In the case of the Insurance Policies, a duly executed letter from the relevant insurer substantially in the form set out in <b>Schedule 8</b> to the Mortgage Sale Agreement
<b>Insurance Policies</b>	means the Properties in Possession Cover and Block Buildings Insurance and <b>Insurance Policy</b> shall be construed accordingly
<b>Intercompany Loan</b>	means all Term Advances made by the Issuer to the LLP under the Intercompany Loan Agreement
<b>Intercompany Loan Agreement</b>	The term loan agreement dated the Programme Date between the Issuer, the LLP, the Cash Manager and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Interest Accrual Period</b>	The period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.
<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 4.2(d) of the Terms and Conditions
<b>Interest Commencement Date</b>	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest
<b>Interest Determination Date</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds the meaning given in the applicable Final Terms
<b>Interest Payment Date</b>	In respect of Fixed Rate Covered Bonds, the meaning given to it in the applicable Final Terms and in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, the meaning given in Condition 4.2(a) of the Terms and Conditions
<b>Interest Period</b>	In accordance with Condition 4.6 of the Terms and Conditions, the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date
<b>Interest Rate Shortfall</b>	The meaning given on page 167
<b>Interest Rate Shortfall Test</b>	The meaning given on page 167
<b>Interest Rate Swap</b>	The interest rate swap entered into in connection with all Series of Covered Bonds under the terms of the Interest Rate Swap Agreement
<b>Interest Rate Swap Agreement</b>	The agreement between the LLP, the Interest Rate Swap Provider and the Security Trustee dated the Programme Date governing the Interest Rate Swap in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Interest Rate Swap Early Termination Event</b>	The meaning given on page 181
<b>Interest Rate Swap Provider</b>	Lloyds TSB Bank plc acting through its office c/o Cheltenham & Gloucester plc, Barnett Way, Gloucester GL4 3RL in its capacity as interest rate swap provider under the Interest Rate Swap Agreement together with any successor interest rate swap provider
<b>Investor Put</b>	The meaning given in Condition 6.4 of the Terms and Conditions

<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISDA Definitions</b>	The 2006 ISDA Definitions, as published by ISDA
<b>ISDA Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2
<b>ISDA Master Agreement</b>	The 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA
<b>ISDA Rate</b>	The meaning given in Condition 4.2(b)(i) of the Terms and Conditions
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche or Series of Covered Bonds under the Programme, as specified in the applicable Final Terms
<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Series or Tranche of Covered Bonds will be issued
<b>Issuer</b>	Lloyds TSB Bank plc
<b>Issuer Acceleration Notice</b>	The meaning given in Condition 9.1 of the Terms and Conditions
<b>Issuer Call</b>	The meaning given in Condition 6.3 of the Terms and Conditions
<b>Issuer Event of Default</b>	The meaning given in Condition 9.1 of the Terms and Conditions
<b>Issuer Subordinated Loan</b>	The meaning given on page 171
<b>Late Payment</b>	The meaning given in Condition 6.11 of the Terms and Conditions
<b>Latest Valuation</b>	In relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller (or C&G in its capacity as originator of loans prior to 1 October 2007)
<b>Ledger</b>	Each of the Revenue Ledger, the Principal Ledger, the Reserve Ledger, the Pre-Maturity Liquidity Ledger, the Intercompany Loan Ledger and the Capital Account Ledger
<b>Legended Covered Bonds</b>	The Registered Covered Bonds in definitive form that are issued to Institutional Accredited Investors and Registered Covered Bonds (whether in definitive form or represented by a Registered Global Covered Bonds) sold in private transactions to QIBs in accordance with the requirements of Rule 144A
<b>Lending Criteria</b>	The lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender
<b>LIBOR</b>	London inter-bank offered rate
<b>Liquidation Member</b>	Lloyds TSB Secured Finance (LM) Limited, a special purpose vehicle incorporated in England and Wales as a private limited company (registered no. 6760619)
<b>Listing Rules</b>	The Listing Rules made by the FSA under Part VI of FSMA
<b>Lloyds TSB or the Company</b>	Lloyds TSB Group plc, registered in Scotland (no. 95000)
<b>Lloyds TSB Group or Group</b>	Lloyds TSB and its subsidiary undertakings from time to time and (other than for the purposes of the section headed <i>Lloyds TSB Group – Capital, Liquidity and Funding Arrangements</i> ) being the Enlarged Group following completion of the Acquisition
<b>Lloyds TSB Placing and Open Offer Prospectus</b>	The meaning given in (x) on page 12
<b>Lloyds TSB Scotland</b>	Lloyds TSB Scotland plc

<b>Lloyds TSB Standard Variable Rate</b>	The standard variable rate set by the Seller in relation to applicable Variable Rate Loans (other than Tracker Loans) beneficially owned by the Seller on the Seller's residential mortgage book
<b>Lloyds TSB Supplementary Placing and Open Offer Prospectus</b>	The meaning give in (xiii) on page 13
<b>LLP</b>	Lloyds TSB Secured Finance LLP, a limited liability partnership incorporated in England and Wales (registered no. OC341740)
<b>LLPA or LLP Act</b>	Limited Liability Partnerships Act 2000 as amended from time to time and any regulations made pursuant to that Act
<b>LLP Acceleration Notice</b>	A notice in writing given by the Bond Trustee to the Issuer and the LLP, that each Covered Bond of each Series is, and each Covered Bond of each Series shall, as against the Issuer (if not already due and repayable against it following an Issuer Acceleration Notice) and as against the LLP, thereupon immediately become, due and repayable at its Early Redemption Amount and all amounts payable by the LLP under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series, in each case as provided in and in accordance with the Trust Deed, and thereafter the Security shall become enforceable if any of the LLP Events of Default shall occur and be continuing
<b>LLP Accounts</b>	The GIC Account, the Transaction Account and any additional or replacement accounts opened in the name of the LLP, including each Swap Collateral Account
<b>LLP Deed</b>	The limited liability partnership deed entered into on the Programme Date between the LLP, the Seller, the Liquidation Member, the Bond Trustee and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>LLP Event of Default</b>	The meaning given in Condition 9.2 of the Terms and Conditions
<b>LLP Management Board</b>	The management board which will act on behalf of the LLP and to which (other than certain decisions identified in the LLP Deed as requiring a unanimous decision of the Members, including (without limitation) any decision to approve the audited accounts of the LLP or to make a resolution for the voluntary winding up of the LLP) the Members delegate all matters relating to the business of the LLP and its management
<b>LLP Payment Date</b>	The 22nd day of each month or if not a London Business Day the next following London Business Day
<b>LLP Payment Period</b>	The period from (and including) an LLP Payment Date to (but excluding) the next following LLP Payment Date
<b>LLP Standard Variable Rate</b>	The standard variable rate applicable to Loans in the Portfolio as set, other than in limited circumstances, by the Servicer pursuant to the Servicing Agreement
<b>Loan</b>	Each mortgage loan (including, for the avoidance of doubt, any English Loan or any Scottish Loan) which is to be sold, assigned or transferred by the Seller to the LLP from time to time under the terms of the Mortgage Sale Agreement (or, prior to the date on which the LLP notifies the Seller and the Security Trustee that it has obtained the requisite licence under the CCA, held upon the CCA Trust or, in the case of Scottish Loans, pursuant to a Scottish Declaration of Trust) and referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and

	other monies (including, without limitation, all Flexible Loan Drawings and Further Advances which are, or are to be, sold, assigned and transferred by the Seller to the LLP under the terms of the Mortgage Sale Agreement) due or owing with respect to that mortgage loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same but excluding any mortgage loan which is repurchased by the Seller or otherwise sold by the LLP and no longer beneficially owned by it
<b>Loan Repurchase Notice</b>	A notice in substantially the form set out in the Mortgage Sale Agreement served by the LLP on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement
<b>Loan-to-Value Ratio</b>	The ratio of the outstanding balance of a Loan to the value of the Property securing that Loan
<b>London Business Day</b>	A day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London
<b>London Stock Exchange</b>	London Stock Exchange plc or any body to which its functions have been transferred
<b>Long Maturity Covered Bond</b>	A Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond
<b>Management Statement</b>	The meaning give in (viii) on page 11
<b>Margin</b>	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Master Definitions and Construction Agreement</b>	The master definitions and construction agreement made between the parties to the Transaction Documents on the Programme Date (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Maximum Rate of Interest</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms
<b>MCCB</b>	Mortgage Code Compliance Board
<b>MCOB</b>	Mortgages and Home Finance: Conduct of Business Sourcebook, published by the FSA on 31 October 2004, as amended, revised or supplemented from time to time
<b>Member</b>	Each member of the LLP
<b>MH/CP Documentation</b>	An affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 and/or (where applicable) the Civil Partnership Act 2004 in connection with a Mortgage over a Property in Scotland or the Property secured thereby
<b>Minimum Rate of Interest</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Minimum Redemption Amount</b>	The amount (if any) specified as such in the applicable Final Terms

<b>Modified Following Business Day Convention</b>	The meaning given in Condition 4.6(b)(iii) of the Terms and Conditions
<b>Monthly Payment</b>	The amount which the relevant Mortgage Conditions require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan
<b>Monthly Payment Day</b>	The date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan or, if any such day is not a London Business Day, the next following London Business Day unless it would thereby fall into the next calendar month, in which event such Monthly Payment Date shall be brought forward to the immediately preceding London Business Day
<b>Moody's</b>	Moody's Investors Service Limited or its successors
<b>Mortgage</b>	The legal charge, mortgage, standard security or charge securing a Loan
<b>Mortgage Account</b>	All Loans secured on the same Property and thereby forming a single mortgage account
<b>Mortgage Code</b>	The mortgage code sponsored by the CML and policed by the MCCB under which, until 31 October 2004, residential mortgage business in the United Kingdom was voluntarily self-regulated
<b>Mortgage Conditions</b>	The terms and conditions applicable to the Loans as contained in the Seller's Mortgage Conditions and/or General Loan Conditions booklets for England and Wales or Scotland applicable from time to time (or the equivalent documentation published by a New Seller)
<b>Mortgage Sale Agreement</b>	The mortgage sale agreement entered into on the Programme Date between the Seller, the LLP and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the LLP and the Security Trustee
<b>N(M)</b>	The date on which the FSMA regime relating to the regulation of mortgages came into effect, 31 October 2004
<b>Negative Carry Factor</b>	The meaning given on page 174
<b>New Company</b>	The meaning set out in Condition 19(a) of the Terms and Conditions
<b>New Entity</b>	The meaning set out in Condition 19(c) of the Terms and Conditions
<b>New Global Covered Bond or (NGCB)</b>	A Temporary Global Covered Bond in the form set out in Part 1 of Schedule 2 to the Trust Deed or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 2 to the Trust Deed, in either case where the applicable Final Terms specifies that the Covered Bonds are in NGCB form
<b>New Loan</b>	Loans, other than the Loans comprised in the Initial Portfolio, which the Seller may assign or transfer to (or otherwise hold on trust under the CCA Trust or, in the case of Scottish Loans, pursuant to a Scottish Declaration of Trust for) the LLP after the First Sale Date pursuant to the Mortgage Sale Agreement
<b>New Loan Type</b>	A new type of mortgage loan originated by the Seller or a New Seller, which the Seller or the New Seller intends to transfer to the LLP, the terms and conditions of which are materially different (in the opinion of the Seller or the New Seller, acting reasonably) from any of the Loans or New Seller Loans in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from any of the Loans or New Seller Loans in the Portfolio solely due to it

	having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, loans where the cash obligations on the part of the Seller remain outstanding and/or rate guarantees
<b>New Member</b>	Any new member admitted to the LLP after the Programme Date
<b>New Mortgage Sale Agreement</b>	Any new mortgage sale agreement entered into between any New Seller, the LLP and the Security Trustee which shall be substantially in the same form and contain substantially the same provisions (provided that the Security Trustee may agree variations to the representations and warranties in relation to the relevant New Seller Loans and their Related Security) as the Mortgage Sale Agreement
<b>New Portfolio</b>	The meaning given on page 203
<b>New Portfolio Notice</b>	A notice in the form set out in the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement
<b>New Seller</b>	Any member of the Lloyds TSB Group (other than Lloyds TSB Bank plc) that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the LLP in the future pursuant to a New Mortgage Sale Agreement and, in the event that the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds by the FSA pursuant to Regulation 14 of the RCB Regulations, to the extent that the Issuer decides to apply, is a "Connected Person" as defined in Regulation 5 of the RCB Regulations and that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the LLP in the future pursuant to a New Mortgage Sale Agreement
<b>New Seller Loans</b>	Loans originated by a New Seller
<b>Non-exempt Offer</b>	The meaning given on page 222
<b>Non-Forward Starting Covered Bond Swap</b>	Each covered bond swap transaction described in a Non-Forward Starting Covered Bond Swap Agreement
<b>Non-Forward Starting Covered Bond Swap Agreement</b>	Each agreement between the LLP, a Covered Bond Swap Provider and the Security Trustee in respect of a Series or Tranche, as applicable, of Covered Bonds which provides a hedge against certain interest rate, currency and/or other risks in respect of amounts received by the LLP under the Loans in the Portfolio and the Interest Rate Swap and amounts payable by the LLP under the Intercompany Loan Agreement (prior to service of a Notice to Pay or service of an LLP Acceleration Notice) and under the Covered Bond Guarantee in respect of Covered Bonds (after service of a Notice to Pay or service of an LLP Acceleration Notice) in the form of an ISDA Master Agreement, including a schedule, one confirmation in relation to one transaction and a credit support annex
<b>Notice to Pay</b>	The meaning given in Condition 9.1 on of the Terms and Conditions
<b>Offer Conditions</b>	The terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower
<b>Official List</b>	Official List of the UK Listing Authority
<b>OFT or Office of Fair Trading</b>	The UK Office of Fair Trading
<b>Ombudsman</b>	Financial Ombudsman Service under the FSMA
<b>Omnibus Proxy</b>	The omnibus proxy mailed by DTC to the Issuer as soon as possible after the record date in accordance with DTC's usual procedures

<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms
<b>Order</b>	The Financial Services and Markets Act (Regulated Activities) Order 2001 (SI 2001/544), as amended
<b>Original Due for Payment Date</b>	The meaning given in paragraph (a) of the definition of Due for Payment
<b>outstanding</b>	<p>In relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:</p> <ul style="list-style-type: none"> <li>(a) those Covered Bonds which have been redeemed in full and cancelled pursuant to the Trust Deed;</li> <li>(b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Terms and Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 13 (Notices)) and remain available for payment against presentation (unless the relevant Covered Bonds are in NGCB form) of the relevant Covered Bonds and/or Receipts and/or Coupons;</li> <li>(c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 6.9 (Purchases) and 6.10 (Cancellation);</li> <li>(d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 8 (Prescription);</li> <li>(e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);</li> <li>(f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10 (Replacement of Covered Bonds, Receipts, Coupons and Talons);</li> <li>(g) any Bearer Global Covered Bond to the extent that it shall have been exchanged for Bearer Definitive Covered Bonds or another Bearer Global Covered Bond pursuant to its provisions, the provisions of the Trust Deed and the Agency Agreement; and</li> <li>(h) those Legended Covered Bonds which have been exchanged for Unlegended Covered Bonds and those Unlegended Covered Bonds which have been exchanged for Legended Covered Bonds, in each case pursuant to their provisions, the provisions of the trust presents and the Agency Agreement,</li> </ul>

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series;
- (ii) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of Clauses 10.3 and 10.4 of the Trust Deed (Proceedings, Action and Indemnification), Conditions 9 (Events of Default, Acceleration and Enforcement) and 14 (Meetings of Covered Bondholders, Modifications and Waiver) and paragraphs 2, 5, 6 and 8 of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Trust Deed;
- (iii) any discretion, power or authority (whether contained in the trust presents or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series,

those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of any of the Issuer's Subsidiaries (including the LLP), the Issuer's holding company or any subsidiaries of such holding company as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding provided further however that, where all of the Covered Bonds are held by or on behalf of the Issuer, such Covered Bonds shall be deemed to remain outstanding

<b>Panel or Takeover Panel</b>	The Panel on Takeovers and Mergers
<b>Parent Support Deed</b>	The parent support deed entered into on the Programme Date between the Cash Manager, the Servicer, Lloyds TSB Bank plc and the Security Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time)
<b>Partial Portfolio</b>	Part of any portfolio of Selected Loans
<b>Partly-Paid Covered Bonds</b>	Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 6.14 of the Terms and Conditions on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Final Terms
<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Agency Agreement
<b>Payment Day</b>	The meaning given in Condition 5.6 of the Terms and Conditions
<b>Payment Holiday</b>	A period during which a Borrower under a Loan refrains from making payments of interest and/or principal on his/her Loan either as expressly permitted by the Mortgage Conditions or as permitted by the Seller and/or Servicer
<b>Permanent Global Covered Bond Portfolio</b>	The meaning given on page 75 The Initial Portfolio and each New Portfolio acquired by the LLP (other than any Loans which have been redeemed in full or repurchased by the Seller or a New Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the LLP)
<b>Post-Enforcement Priority of</b>	The meaning given on page 200

## Payments

<b>Postponed Deferred Consideration</b>	Deferred Consideration the payment of which is, by reason of the application thereto of the proviso as to Available Revenue Receipts and/or the making of provisions as referred to in the Mortgage Sale Agreement, postponed from the date on which such Deferred Consideration would, but for such application, have been paid
<b>Potential Issuer Event of Default</b>	The meaning given in Condition 14 of the Terms and Conditions
<b>Potential LLP Event of Default</b>	The meaning given in Condition 14 of the Terms and Conditions
<b>Pre-Acceleration Principal Priority of Payments</b>	The meaning given on page 195
<b>Pre-Acceleration Priority of Payments</b>	The Pre-Acceleration Principal Priority of Payments or the Pre-Acceleration Revenue Priority of Payments, as applicable
<b>Pre-Acceleration Revenue Priority of Payments</b>	The meaning given on page 192
<b>Preceding Business Day Convention</b>	The meaning given in Condition 4.6(b)(iv) of the Terms and Conditions
<b>Pre-Maturity Liquidity Ledger</b>	The ledger on the GIC Account maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of moneys available to repay any Series of Hard Bullet Covered Bonds on the Final Maturity Date thereof if the Pre-Maturity Liquidity Test has been breached
<b>Pre-Maturity Liquidity Test</b>	The meaning given in <i>Credit Structure – Pre-Maturity Liquidity Test</i> on pages 187-188
<b>Pre-Maturity Liquidity Test Breach Notice Period</b>	(a) in respect of the S&P Pre-Maturity Liquidity Test rating trigger, five months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds and (b) in respect of Moody's Pre-Maturity Liquidity Test rating trigger, eleven months prior to the Final Maturity Date of that Series of Hard Bullet Covered Bonds
<b>Pre-Maturity Liquidity Test Date</b>	Each London Business Day prior to the occurrence of an Issuer Event of Default or the occurrence of an LLP Event of Default, where the LLP or the Cash Manager on its behalf will determine if the Pre-Maturity Liquidity Test has been breached
<b>Principal Amount Outstanding</b>	In accordance with Condition 4.6(f) of the Terms and Conditions in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day
<b>Principal Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the credits and debits of Principal Receipts in accordance with the terms of the LLP Deed
<b>Principal Paying Agent</b>	The Bank of New York Mellon, or, if applicable, any successor principal paying agent
<b>Principal Receipts</b>	Any amount received and recorded as being received in respect of principal in respect of any Loan (including payments pursuant to any Insurance Policies and Early Repayment Charges), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of

	the enforcement procedures), including, for the avoidance of doubt, payments in respect of amounts which previously resulted in an increased Capital Contribution in Kind
<b>Priorities of Payments</b>	The orders of priority for the allocation and distribution of amounts standing to the credit of the LLP Accounts set out in the Pre-Acceleration Revenue Priority of Payments, Pre-Acceleration Principal Priority of Payments, Guarantee Priority of Payments and the Post-Enforcement Priority of Payments
<b>Product Switch</b>	A variation to the financial terms and conditions applicable to a Loan other than: <ul style="list-style-type: none"> <li>(a) any variation agreed with a Borrower to control or manage arrears on the Loan;</li> <li>(b) any variation in the maturity of the Loan;</li> <li>(c) any variation imposed by statute;</li> <li>(d) any variation of the principal available and/or the rate of interest payable in respect of the Loan where that variation or rate is offered to the Borrowers under Loans which constitute 10 per cent. or more by outstanding principal amount of Loans comprised in the Portfolio in any LLP Payment Period; or</li> <li>(e) any variation in the frequency with which the interest payable in respect of the Loan is charged</li> </ul>
<b>Programme</b>	£30 billion global covered bond programme established by the Issuer on the Programme Date
<b>Programme Agreement</b>	The programme agreement entered into on the Programme Date between the Issuer, the LLP and the Dealer named therein concerning the purchase of Covered Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto
<b>Programme Date</b>	17 December 2008
<b>Programme Resolution</b>	The meaning given to it in Condition 14 of the Terms and Conditions
<b>Properties in Possession Cover</b>	The properties in possession cover written by Lloyds TSB General Insurance Limited for Loans in favour of the Seller and any endorsements or extensions thereto as issued from time to time, or any such similar alternative or replacement policy or policies as may in the future be issued in favour of the Seller
<b>Property</b>	(In England and Wales) freehold or leasehold property or (in Scotland) a heritable property or a property held under a long lease which is subject to a Mortgage and <b>Properties</b> means all of them
<b>Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and amending 2001/34
<b>Prospectus Rules</b>	The prospectus rules made by the FSA under Part VI of FSMA
<b>Purchaser</b>	Any third party or the Seller to whom the LLP offers to sell Selected Loans
<b>Put Notice</b>	The meaning given in Condition 6.4 on page 113
<b>QIB</b>	A "qualified institutional buyer" within the meaning of Rule 144A
<b>Rate of Interest</b>	The meaning given to it in the applicable Final Terms as further elaborated by Condition 4 of the Terms and Conditions

<b>Rating Agencies</b>	Moody's and S&P (each a <b>Rating Agency</b> )
<b>Rating Agency Confirmation</b>	A confirmation in writing by the Rating Agencies that the then current ratings of the Covered Bonds will not be adversely affected by or withdrawn as a result of the relevant event or matter
<b>RCB Regulations</b>	The Regulated Covered Bonds Regulations 2008 (SI 2008/346) as amended
<b>RCB Sourcebook</b>	The Regulated Covered Bonds Sourcebook, published by the FSA on 6 March 2008, as amended, revised or supplemented from time to time
<b>Reasonable, Prudent Mortgage Lender</b>	A reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital
<b>Receipt</b>	A receipt for payment of instalments of principal (other than the final instalment) attached on issue to a Bearer Definitive Covered Bonds repayable in instalments, such receipt being substantially in the form set out in Part 4 of Schedule 2 to the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues) and includes any replacements for Receipts issued pursuant to Condition 10 of the Terms and Conditions
<b>Receiptholders</b>	The holders of the Receipts
<b>Receiver</b>	Any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Property by the Security Trustee pursuant to the Deed of Charge
<b>Record Date</b>	The meaning given in Condition 5.4 of the Terms and Conditions
<b>Redeemed Covered Bonds</b>	The meaning given in Condition 6.3 of the Terms and Conditions
<b>Reduction Court Hearing</b>	The hearing by the Court of Session in Edinburgh, Scotland of the petition to confirm the Capital Reduction under section 137 of the Companies Act 1985 (as amended or re-enacted) and authorising the re-registration of HBOS as a private company under section 139 of the Companies Act 1985 (as amended or re-enacted)
<b>Reference Assets</b>	In respect of Equity Linked Interest Covered Bonds, shares or other securities, as indicated in the applicable Final Terms
<b>Reference Entities</b>	In respect of Credit Linked Interest Covered Bonds, entities as indicated in the applicable Final Terms
<b>Reference Price</b>	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms
<b>Reference Rate</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms
<b>Register</b>	The register of holders of the Registered Covered Bonds maintained by the Registrar
<b>Registered Covered Bond</b>	A Covered Bond in registered form
<b>Registered Definitive Covered Bond</b>	A Registered Covered Bond in definitive form issued or, as the context may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer, the Agency Agreement and the Trust Deed either on issue or in exchange for a Registered Global Covered Bond or part thereof (all as indicated in the applicable Final Terms), such Registered Covered Bond in definitive form being substantially in the form set out in Part 8 of Schedule 2 to the Trust

	Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and having the Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Terms and Conditions by reference (where applicable to the Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon
<b>Registered Global Covered Bonds</b>	Global Covered Bonds in registered form, comprising Rule 144A Global Covered Bonds and Regulation S Global Covered Bonds substantially in the form set out in the Trust Deed
<b>Registered Land</b>	In the case of England and Wales, land the title to which is, or is required to be, registered at the Land Registry
<b>Registers of Scotland</b>	The Land Register of Scotland and the General Register of Sasines
<b>Registrar</b>	The Bank of New York Luxembourg S.A., in its capacity as registrar (and any successor registrar appointed in accordance with the Agency Agreement)
<b>Regulated Covered Bonds</b>	Covered Bonds that have been admitted to the register of regulated covered bonds maintained by the FSA pursuant to the RCB Regulations
<b>Regulated Mortgage Contract</b>	The meaning given under the FSMA being that a contract is a regulated mortgage contract if, at the time it is entered into on or after N(M): <ul style="list-style-type: none"> <li>(a) the contract is one under which the lender provides credit to an individual or to trustees;</li> <li>(b) the contract provides that the obligation of the individual/trustees to repay is to be secured by (in England and Wales) a first ranking legal mortgage or (in Scotland) a first ranking standard security on land (other than timeshare accommodation) in the United Kingdom; and</li> <li>(c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the individual or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person</li> </ul>
<b>Regulation S</b>	Regulation S under the Securities Act
<b>Regulation S Covered Bond</b>	A Covered Bond represented by a Regulation S Global Covered Bond or a Definitive Regulation S Covered Bond as the context may require
<b>Regulation S Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold to non-U.S. persons outside the United States in reliance on Regulation S and substantially in Part 7 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues)
<b>Regulations</b>	The Unfair Terms in Consumer Contracts Regulations 1999
<b>Related Security</b>	In relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the LLP pursuant to the Mortgage Sale Agreement (but excluding, for avoidance of doubt, the Properties in Possession Cover and Block Buildings Insurance in respect of which the LLP and the Security Trustee have received Insurance Acknowledgements)
<b>Relevant Date</b>	The meaning given in Condition 7 of the Terms and Conditions

<b>Relevant Period</b>	The meaning given in Condition 14 of the Terms and Conditions
<b>Relevant Screen Page</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
<b>Representations and Warranties</b>	The representations and warranties set out in the Mortgage Sale Agreement
<b>Required Current Balance Amount</b>	The meaning given on page 176
<b>Required Redemption Amount</b>	The meaning given on page 177
<b>Reserve Fund</b>	The reserve fund that the LLP will be required to establish on the GIC Account which will be credited with Available Revenue Receipts up to an amount equal to the Reserve Fund Required Amount and any Cash Capital Contributions made to the LLP by the Seller which the Seller directs the LLP to credit thereto
<b>Reserve Fund Required Amount</b>	<p>If the Issuer's short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&amp;P or P-1 by Moody's, nil or such other amount as Lloyds TSB Bank plc shall direct the LLP from time to time and otherwise, an amount equal to the Sterling Equivalent of the interest due on each Series of Covered Bonds for X months together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) and (c) of the Pre-Acceleration Revenue Priority of Payments plus £600,000 or such higher amount as Lloyds TSB Bank plc shall direct the LLP from time to time</p> <p>where,</p> <p>X = the number of months between the dates on which the LLP is required to make payments under the Covered Bond Swap entered into in relation to a Series of Covered Bonds, or if no Covered Bond Swap has been entered into in relation to a Series of Covered Bonds, the number of months between the Interest Payment Dates in relation to such Series of Covered Bonds</p>
<b>Reserve Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Capital Contributions to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the LLP Deed
<b>Reset Date</b>	The meaning given in the ISDA Definitions
<b>Responsible Persons</b>	The meaning given on page 3
<b>Revenue Ledger</b>	The ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts in accordance with the terms of the LLP Deed
<b>Revenue Receipts</b>	Any payment received in respect of any Loan, including any payment received from the Seller in respect of an Underpayment or a Payment Holiday or in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise, which in any such case is not recorded as a Principal Receipt in respect of such Loan
<b>Right to Buy Loan</b>	Each Loan extended to the relevant Borrowers in connection with the

purchase (or refinancing of the purchase) by those Borrowers of Properties from local authorities or certain other landlords under the "right-to-buy" schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001)

<b>Rule 144A</b>	Rule 144A under the Securities Act
<b>Rule 144A Covered Bond</b>	A Covered Bond represented by a Rule 144A Global Covered Bond and/or a Definitive Rule 144A Covered Bond as the context may require
<b>Rule 144A Global Covered Bond</b>	A Registered Global Covered Bond representing Covered Bonds sold in the United States to QIBs in reliance on Rule 144A and substantially in Part 8 of Schedule 2 to the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee, and the relevant Dealer or Lead Manager (in the case of syndicated issues)
<b>Rules</b>	The rules, regulations and procedures creating and affecting DTC and its operations
<b>S&amp;P</b>	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or its successors
<b>Sale Date</b>	Each of the First Sale Date and each other date of sale of any New Portfolio to the LLP in accordance with the terms of the Mortgage Sale Agreement or, if earlier, the date on which such New Portfolio becomes subject to the CCA Trust and/or a Scottish Declaration of Trust
<b>Scheduled Interest</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 4 of the Terms and Conditions (but excluding any additional amounts relating to premiums, default interest or interest upon interest ( <b>Excluded Scheduled Interest Amounts</b> ) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the applicable Final Terms specified that an Extended Due for Payment Date is applicable to the relevant Covered Bonds) as if the maturity date of the Covered Bonds had been the Extended Due for Payment Date (but taking into account any principal repaid in respect of such Covered Bonds or any Guaranteed Amounts paid in respect of such principal prior to the Extended Due for Payment Date) or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms less any additional amounts the Issuer would be obliged to pay as a result of any gross-up in respect of any withholding or deduction made under the circumstances set out in Condition 7 of the Terms and Conditions
<b>Scheduled Payment Date</b>	In relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date
<b>Scheduled Principal</b>	In relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 6.1 and Condition 6.7 of the Terms and Conditions (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest ( <b>Excluded</b>

**Scheduled Principal Amounts**) payable by the Issuer following service of an Issuer Acceleration Notice, but including such amounts (whenever the same arose) following service of an LLP Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date and (if the Final Terms specified that an Extended Due for Payment Date is applicable to such relevant Covered Bonds) as if the maturity date of such Covered Bonds had been the Extended Due for Payment Date

<b>Scheme or Scheme of Arrangement</b>	The proposed scheme of arrangement under sections 895 to 899 of the Companies Act 2006, (as amended) in so far as in force between HBOS and the holders of the Scheme Shares, with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and which the Court of Session in Edinburgh may think fit to approve or impose
<b>Scheme Document</b>	The document dated 14 November 2008 containing, <i>inter alia</i> , the Scheme and the notice of the Court Meeting and the HBOS General Meeting
<b>Scheme Shareholders</b>	The holders of Scheme Shares and <b>Scheme Shareholder</b> means any one of them
<b>Scheme Shares</b>	HBOS Shares: <ul style="list-style-type: none"><li>(a) in issue on the date of the Scheme Document;</li><li>(b) issued after the date of the Lloyds TSB Placing and Open Offer Prospectus and prior to the Voting Record Time;</li><li>(c) issued on or after the Voting Record Time but before the Hearing Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS General Meeting, in respect of which the holder thereof shall have agreed in writing to be bound by the Scheme,</li></ul> and including, for the avoidance of doubt, the HBOS Open Offer Shares and, where the context requires, the A Ordinary Shares and (if any) the B Ordinary Shares but excluding the Deferred Shares and <b>Scheme Share</b> means any one of them
<b>Scheme Special Resolution</b>	Means resolution 2 to be proposed at the HBOS General Meeting in connection with the implementation of the Scheme
<b>Scottish Declaration of Trust</b>	Each declaration of trust in relation to Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the transfer of the beneficial interest in such Scottish Loans and their Related Security by the Seller or a New Seller to the LLP is given effect
<b>Scottish Loan</b>	A Loan secured by a Mortgage over a Property in Scotland
<b>Scottish Sub-Security</b>	Each standard security granted by the LLP in favour of the Security Trustee pursuant to the Deed of Charge
<b>Scottish Supplemental Charge</b>	Each assignment in security governed by Scots law granted by the LLP in respect of its beneficial interest in a Scottish Declaration of Trust or Scottish Declarations of Trust in favour of the Security Trustee pursuant to the Deed of Charge
<b>Scottish Widows</b>	Scottish Widows plc, registered in Scotland (no. SC199549)
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be

	determined in accordance with Condition 4.2(b)(ii)
<b>Secured Creditors</b>	The Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Covered Bondholders), the Covered Bondholders, the Receiptholders, the Couponholders, the Issuer, the Seller, the Servicer, the Account Bank, the GIC Provider, the Cash Manager, the Swap Providers, the Corporate Services Provider, the Agents and any other person which becomes a Secured Creditor pursuant to the Deed of Charge
<b>Securities Act</b>	U.S. Securities Act of 1933, as amended
<b>Security</b>	The meaning given on page 185
<b>Security Trustee</b>	BNY Corporate Trustee Services Limited, in its capacity as security trustee under the Trust Deed and the Deed of Charge together with any successor security trustee appointed from time to time
<b>Selected Loan Offer Notice</b>	A notice from the LLP served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Current Balance of the Selected Loans and the Adjusted Required Redemption Amount
<b>Selected Loan Repurchase Notice</b>	A notice from the Seller served on the LLP accepting an offer set out in a Selected Loan Offer Notice
<b>Selected Loans</b>	Loans and their Related Security to be sold by the LLP pursuant to the terms of the LLP Deed and the Mortgage Sale Agreement having in aggregate the Required Current Balance Amount
<b>Selection Date</b>	The meaning given in Condition 6.3 of the Terms and Conditions
<b>Seller</b>	Lloyds TSB Bank plc in its capacity as Seller under the Mortgage Sale Agreement, and <b>Sellers</b> means, together, the Sellers and New Sellers
<b>Seller Power of Attorney</b>	A power of attorney to be provided by the Seller substantially in the form set out in schedule 5 ( <i>Power of Attorney in favour of the LLP and the Security Trustee</i> ) to the Mortgage Sale Agreement
<b>Series</b>	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions <b>Covered Bonds of the relevant Series, holders of the relevant Series</b> and related expressions shall be construed accordingly
<b>Series Reserved Matter</b>	In relation to Covered Bonds of a Series: <ul style="list-style-type: none"> <li>(a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or delivery, in the case of Asset Amounts or, where applicable, modification of the method of calculating the date of payment or delivery in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;</li> <li>(b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;</li> <li>(c) alteration of the majority required to pass an Extraordinary Resolution;</li> <li>(d) any amendment to the Covered Bond Guarantee or the Deed of Charge;</li> </ul>

- (e) power to sanction any such scheme or proposal for the exchange or sale of the Covered Bonds or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an instrument of transfer of the Registered Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively; and
- (f) alteration of paragraph 5 or proviso to paragraph 6 of Schedule 4 to the Trust Deed

<b>Servicer</b>	C&G in its capacity as servicer under the Servicing Agreement (and any successor servicer)
<b>Servicer Termination Event</b>	The meaning given on page 169
<b>Servicing Agreement</b>	The servicing agreement entered into on the Programme Date between the LLP, the Servicer and the Security Trustee (as same may be amended, restated, supplemented, replaced or novated from time to time)
<b>Servicing Fee</b>	The meaning given on page 169
<b>Share Trustee</b>	SFM Corporate Services Limited (registered number 3920255) in its capacity as share trustee together with any successor share trustee appointed from time to time
<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Bond Trustee and specified in the applicable Final Terms
<b>Specified Denomination</b>	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms
<b>Specified Period</b>	In respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the meaning (if any) given in the applicable Final Terms
<b>Standard Documentation</b>	The standard documentation, annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender
<b>Standard Security or standard security</b>	A standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970
<b>Standard Variable Rate</b>	Lloyds TSB Standard Variable Rate and/or LLP Standard Variable Rate, as the context may require
<b>Sterling Equivalent</b>	In relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of

Covered Bonds) which is denominated in (a) a currency other than Sterling, the Sterling equivalent of such amount ascertained using the relevant Covered Bond Swap Rate relating to such Term Advance or the Term Advance applicable to such Series of Covered Bonds and (b) Sterling, the applicable amount in Sterling

**Sterling LIBOR**

LIBOR for sterling deposits having the relevant maturity

**Subsidiary**

Any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act)

**Substitution Assets**

Each of:

- (a) Sterling gilt-edged securities;
- (b) Sterling demand or time deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and the short-term, unsecured, unguaranteed and unsubordinated debt obligations or, as applicable, the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1/Aa3 by Moody's and A-1+/AA- by S&P or their equivalents by two other internationally recognised rating agencies;
- (c) Sterling denominated government and public securities, as defined from time to time by the FSA, provided that such investments have a remaining period to maturity of one year or less and which are rated at least Aaa by Moody's and AAA by S&P or their equivalents by two other internationally recognised rating agencies; and
- (d) Sterling denominated residential mortgage backed securities provided that such investments have a remaining period to maturity of one year or less, are actively traded in a continuous, liquid market on a recognised stock exchange, are held widely across the financial system, are available in an adequate supply and which are rated at least Aaa by Moody's and AAA by S&P or their equivalents by two other internationally recognised rating agencies,

provided that if the Programme or any Series of Covered Bonds issued under the Programme is admitted to the register of regulated covered bonds pursuant to Regulation 14 of the RCB Regulations, such Substitution Assets comply with the requirements of Regulation 2(1)(a) of the RCB Regulations, and provided further that the following conditions are met: (x) the substitution asset in question can be transferred to and by the LLP without the relevant transfer or agreement to transfer giving rise to a liability to any stamp duty, stamp duty reserve tax or other similar documentary or registration tax for which the LLP is, or may become liable, to account and (y) payments can be made to the LLP under or in respect of the substitution asset in question without any liability on the part of the payer (or any person by or through whom such payment is made) to withhold or otherwise to account for any tax unless the amounts payable to the LLP are in accordance with the documentation governing the relevant payments increased so that the LLP receives the amount which the LLP would have received absent the obligations to withhold or otherwise account for the relevant tax and if these conditions are not met, the extent to which they are not met is taken into account by the Cash Manager in

	determining the purchase price of the Substitution Asset in question
<b>sub-unit</b>	In accordance with Condition 4.6(i) of the Terms and Conditions, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01
<b>Swap Agreements</b>	Any Covered Bond Swap Agreements together with the Interest Rate Swap Agreement, and each a <b>Swap Agreement</b>
<b>Swap Collateral</b>	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a Swap Provider to the LLP as collateral to secure the performance by such Swap Provider of its obligations under the relevant Swap Agreement together with any income or distributions received in respect of such asset and any equivalent of such asset into which such asset is transformed
<b>Swap Collateral Accounts</b>	Any account in the name of the LLP held with Lloyds TSB Bank plc (or any other Account Bank from time to time) into which collateral in respect of the Interest Rate Swap or a Covered Bond Swap may be deposited in accordance with the terms of the relevant Swap Agreement
<b>Swap Collateral Available Amounts</b>	At any time, the amount of Swap Collateral which under the terms of the relevant Swap Agreement may be applied at that time in satisfaction of the relevant Swap Provider's obligations to the LLP following termination of a Swap Agreement to the extent that such obligations relate to payments to be made in connection with the Pre-Acceleration Priority of Payments or the Guarantee Priority of Payments
<b>Swap Collateral Excluded Amounts</b>	At any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the LLP, including Swap Collateral which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreement and ultimately upon termination of the relevant Swap Agreement
<b>Swap Provider Default</b>	The occurrence of an Event of Default or Termination Event (each as defined in the relevant Swap Agreement) with respect to the relevant Swap Provider, where the relevant Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in relevant Swap Agreements), as applicable, other than a Swap Provider Downgrade Event
<b>Swap Provider Downgrade Event</b>	The occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following a failure by the Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement
<b>Swap Providers</b>	Each Covered Bond Swap Providers and the Interest Rate Swap Provider, and each a <b>Swap Provider</b>
<b>Swap Provider Tax Payment</b>	Any indemnity payment received by the LLP from a Swap Provider as a result of a breach of certain tax representations in the relevant Swap Agreement
<b>Swaps</b>	Any Covered Bond Swaps together with the Interest Rate Swap, and each a <b>Swap</b>
<b>Talons</b>	The Talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Covered Bonds (other than Zero Coupon Covered Bonds), such talons being substantially in the form set out in the Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer and

	includes any replacements for Talons issued pursuant to Condition 10 of the Terms and Conditions
<b>TARGET2 System</b>	In accordance with Condition 4.6(a)(ii), the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor system thereto
<b>Tax Credit</b>	The meaning given in the relevant Swap Agreement
<b>Taxes</b>	All present and future taxes, levies, imposts, duties (other than stamp duty), fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including, without limitation, income tax, corporation tax, VAT or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon and <b>Tax</b> and <b>Taxation</b> shall be construed accordingly
<b>Temporary Global Covered Bond</b>	A temporary global covered bond substantially in the form set out in the Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer relating to the Programme, the Agency Agreement and the trust presents
<b>Term Advance</b>	Each term advance made by the Issuer to the LLP from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement
<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Trust Deed)
<b>Third Party Amounts</b>	Each of: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such a bank is unable to recoup that amount itself from the customer's account and other rejected payments (for example, cheques which have been returned unpaid); or</li> <li>(b) payments by Borrowers of insurance premiums and other expenses due to external parties</li> </ul> <p>which amounts shall be paid on receipt by the LLP to the Seller from moneys transferred to the Transaction Account from the GIC Account</p>
<b>Title Deeds</b>	In relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents (if any) which make up the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage
<b>Tracker Loan</b>	A Loan where interest is linked to the Bank of England's official dealing rate (the repo rate) as set by the UK Monetary Policy Committee or such alternative rate or index which is not controlled by the Seller, that the Seller considers to be the most appropriate in the circumstances
<b>Tracker Rate</b>	The rate of interest applicable to a Tracker Loan (before applying any cap or minimum rate)
<b>Tranche</b>	An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading)

<b>Transaction Account</b>	The account in the name of the LLP held with Lloyds TSB Bank plc and maintained subject to the terms of the Bank Account Agreement, the Deed of Charge and the LLP Deed or such additional or replacement account as may for the time being be in place pursuant to the Cash Management Agreement with the prior consent of the Security Trustee and designated as such
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>(a) Mortgage Sale Agreement</li> <li>(b) each Scottish Declaration of Trust</li> <li>(c) Servicing Agreement</li> <li>(d) Asset Monitor Agreement</li> <li>(e) Intercompany Loan Agreement</li> <li>(f) LLP Deed</li> <li>(g) Cash Management Agreement</li> <li>(h) Interest Rate Swap Agreement</li> <li>(i) each Covered Bond Swap Agreement</li> <li>(j) Bank Account Agreement</li> <li>(k) Corporate Services Agreement</li> <li>(l) Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation each Scottish Supplemental Charge and Scottish Sub-Security)</li> <li>(m) Trust Deed</li> <li>(n) Agency Agreement</li> <li>(o) Programme Agreement</li> <li>(p) Guaranteed Investment Contract</li> <li>(q) the Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(r) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement)</li> <li>(s) Master Definitions and Construction Agreement</li> <li>(t) Parent Support Deed</li> <li>(u) any other agreement or document from time to time designated as such by the Issuer, the LLP and the Bond Trustee and/or Security Trustee</li> </ul>
<b>Transfer Agent</b>	In relation to all or any Series of Registered Covered Bonds, The Bank of New York Mellon, in its capacity as transfer agent or, if applicable, any successor transfer agent in relation to all or any Series of Registered Covered Bonds
<b>Transfer Certificate</b>	The meaning given in Condition 2(e)(i) of the Terms and Conditions
<b>Trust Deed</b>	The trust deed entered into on the Programme Date between the Issuer, the LLP, the Bond Trustee and the Security Trustee (as the same may be amended, restated, supplemented, replaced or novated from time to time)
<b>UK Listing Authority</b>	The FSA in its capacity as competent authority under the FSMA

<b>Underpayment</b>	A reduced payment by a Borrower (including any payment made under a Flexible Loan) and where such reduced payment is in place of the Monthly Payment set out in the Offer Conditions or as agreed by the Seller (acting as a Reasonable, Prudent Mortgage Lender) due to existing overpayments in accordance with its standard lending practice (or any changed Monthly Payment subsequently notified to the Borrower), where there are sufficient available funds to fund the difference between the Monthly Payment and this reduced payment and where the Borrower is not in breach of the Mortgage Conditions for making such payment
<b>Unfair Practices Directive</b>	Directive 2005/29/EC of 11 May 2005 on unfair business-to-consumer commercial practices and amending Council Directive 84/450/ECC and others
<b>Unlegended Covered Bond</b>	Any Registered Covered Bond which is not a Legended Covered Bond
<b>UTCCR</b>	The Unfair Terms in Consumer Contracts Regulations 1994 (SI 1994/3159) and the 1999 Regulations
<b>Valuation Report</b>	The valuation report or reports for mortgage purposes, in the form of the proforma report contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the Seller (or his successor)
<b>Valuer</b>	An Associate or Fellow of the Royal Institute of Chartered Surveyors who was at the relevant time either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institute of Chartered Surveyors
<b>Variable Interest Covered Bonds</b>	Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Currency Linked Covered Bonds, Dual Currency Linked Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds) where the rate of interest is variable
<b>Variable Rate Loan</b>	A Loan which is subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Conditions (and shall, for the avoidance of doubt, exclude Fixed Rate Loans and Tracker Loans)
<b>Voting Record Time</b>	The time fixed by the Court of Session in Edinburgh for determining the entitlement to vote at the Court Meeting as set out in notice thereof, which will be 6pm on the day which is two days prior to the date of the Court Meeting and the HBOS General Meeting or, if the Court Meeting and/or the HBOS General Meeting is adjourned, 6pm on the day which is two days after the date of such adjourned meeting
<b>Yield Shortfall Test</b>	The meaning given on page 168
<b>Zero Coupon Covered Bonds</b>	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest

**ISSUER**

**Lloyds TSB Bank plc**  
25 Gresham Street  
London EC2V 7HN

**LLP**

**Lloyds TSB Secured Finance LLP**  
35 Great St. Helen's  
London EC3A 6AP

**ARRANGER**

**Lloyds TSB Bank plc**  
10 Gresham Street  
London EC2V 7AE

**DEALER**

**Lloyds TSB Bank plc**  
10 Gresham Street  
London EC2V 7AE

**SECURITY TRUSTEE AND BOND TRUSTEE**

**BNY Corporate Trustee Services Limited**  
40th Floor, One Canada Square  
London E14 5AL

**PRINCIPAL PAYING AGENT AND EXCHANGE  
AGENT**

**The Bank of New York Mellon**  
40th Floor, One Canada Square  
London E14 5AL

**REGISTRAR**

**The Bank of New York Luxembourg S.A.**  
Aerogolf Center, 1A, Hoehenhof  
L-1736 Senningerberg, Luxembourg

**AUDITORS**

*To the LLP and the Issuer*  
**PricewaterhouseCoopers LLP**  
Hay's Galleria  
1 Hays Lane  
London SE1 2RD

**LEGAL ADVISERS**

*To the Issuer, the LLP and the  
Seller as to English law*  
**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD

*To the Issuer, the LLP and the  
Seller as to Scots law*  
**Dundas & Wilson LLP**  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN

*To the Arranger and Dealer as to  
English law*  
**Clifford Chance LLP**

10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

*To the Security Trustee and the  
Bond Trustee as to English law*  
**Clifford Chance LLP**

10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

*To the Dealer as to Scots law*  
**Shepherd and Wedderburn  
LLP**

1 Exchange Crescent  
Conference Square  
Edinburgh EH3 8UL